

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

UNITED STATES OF AMERICA        )  
   )        No.  
              vs.                             )  
   )        Violations: Title 18, United States Code,  
RICHARD P. ZACHMANN                )        Sections 1343 and 2

COUNT ONE

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. At times material to this indictment:

a. Defendant RICHARD P. ZACHMANN was Vice President of Life Associates, Inc. and between in or about 2001 and through at least in or about 2008 controlled the operations of Life Associates, Inc. Defendant ZACHMANN and his wife owned Life Associates, Inc.

b. Life Associates, Inc. (“LAI”) was a corporation with its principal place of business in Sandwich, Illinois, and later Sugar Grove, Illinois. LAI provided services to more than 100 public housing authorities throughout the United States (the “Housing Authorities”). In particular, LAI:

i. held a business relationship with the Housing Authorities and served as the Housing Authorities’ principal point of contact in the administration of their employee pension plans and group life insurance program;

ii. served as the plan administrator for the Housing Authorities’ employee pension plans, and in that capacity provided a variety of services to the Housing Authorities and their individual plan participants, including recordkeeping, customer service and support, and education; and

ii. offered its Housing Authority clients access to a group life insurance program through Principal Financial Group in which many of the Housing Authorities participated.

c. Principal Financial Group (formerly known as Principal Mutual Holding Company) (“Principal”), was a financial services company based in Des Moines, Iowa, that provided investment management services to the Housing Authorities. LAI arranged for Principal to hold and invest the Housing Authorities’ employee pension funds, and to provide group life insurance that LAI offered to the Housing Authorities through Principal.

d. Funds belonging to the Housing Authorities’ pension plans, group life insurance program participants, and their beneficiaries were held in trust for the benefit of the participants. Castle Bank, a division of First National Bank of Omaha, served as trustee for the Housing Authorities’ pension plans and group life insurance program. As trustee, Castle Bank was required to authorize distributions and expenditures of funds belonging to the pension plans and group life insurance program, although in doing so, it took direction from LAI and defendant ZACHMANN.

e. In or about May 2001, Principal underwent a conversion from a mutual holding company, which was owned by its policyholders, to a publicly-traded company, through a process known as “demutualization.” As a result of the demutualization process, Principal’s customers and policyholders – including the Housing Authorities – were entitled to distributions of Principal’s value at the time of its initial

public offering. Entities holding Principal policies and contracts received demutualization proceeds in the form of cash, policy credits, and Principal stock.

f. In or about late 2001, Principal allocated 249,235 account credits to the annuity contracts under which the Housing Authorities' pension plan assets were held, and a credit of 53,872 shares of Principal common stock to the group life insurance plan in which a majority of the Housing Authorities participated.

g. By in or about February 2002, defendant ZACHMANN and Principal caused the Housing Authorities' 249,235 account credits to be converted into approximately \$6,150,967 in cash, which funds were deposited into a separate account at Principal as demutualization proceeds ("Pension Plan Demutualization Proceeds").

h. In or about February 2002, defendant ZACHMANN caused the transfer of the Housing Authorities' 53,872 shares of Principal common stock into an insurance trust account maintained by Castle Bank and caused the shares to be sold and converted into approximately \$1,363,458 in cash, which funds were maintained by Castle Bank ("Insurance Demutualization Proceeds"). By the end of about March 2002, Castle Bank held approximately \$1.52 million in Housing Authority assets in the insurance trust account.

i. Defendant ZACHMANN held a trusted position with respect to the pension plans and group life insurance program because he provided administrative and recordkeeping services and controlled the flow of information to the Housing Authorities, including information regarding the Pension Plan Demutualization Proceeds and Insurance Demutualization Proceeds.

2. Beginning no later than in or about January 2002, and continuing until at least in or about January 2009, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, knowingly devised and participated in a scheme to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, promises, and material omissions, which scheme is further described below.

3. It was part of the scheme that: (a) defendant ZACHMANN did not disclose to, and concealed from, the Housing Authorities, and the beneficiaries of the Housing Authorities' pension plans and group life insurance program, that the pension plans and group life insurance program had received the Pension Plan Demutualization Proceeds and the Insurance Demutualization Proceeds; and (b) defendant ZACHMANN fraudulently converted the Pension Plan Demutualization Proceeds and Insurance Demutualization Proceeds to his and wife's personal benefit, to the benefit of certain non-LAI related businesses at least partially owned by defendant ZACHMANN, and to the benefit of LAI.

4. It was further part of the scheme that in or about January 2002, without disclosure to the Housing Authorities, defendant ZACHMANN persuaded Principal to establish a separate expense account from which LAI could withdraw the Pension Plan Demutualization Proceeds, purportedly to offset future expenses that LAI would charge the Housing Authorities and their plan participants.

5. It was further part of the scheme that in or about early 2002, defendant ZACHMANN caused LAI to send the Housing Authorities a document entitled “Instructions for Application of Contributions for Government Agency Pension Plan,” and an accompanying cover letter summarizing recent events relating to the Housing Authorities’ pension plans, that falsely represented that the fees charged by LAI would “remain the same as in 2001,” and omitted material information that the pension plans had received substantial proceeds from Principal’s demutualization.

6. It was further part of the scheme that beginning in or about July 2002, defendant ZACHMANN caused LAI to direct Principal to debit the Pension Plan Demutualization Proceeds account on an approximately monthly basis, retroactive to April 2002 and going forward, to pay increased fees to LAI.

7. It was further part of the scheme that in or about July 2002, in response to questions from Principal about the size and propriety of LAI’s fee increase, and to induce Principal to disburse the requested funds from the Pension Plan Demutualization Proceeds, defendant ZACHMANN executed a document entitled “Acknowledgment of Changes to Guaranteed Fund Arrangement,” in which defendant ZACHMANN falsely and fraudulently represented to Principal that:

- “each Housing Authority affiliated with Life Associates, Inc. has received notice” that additional monthly service fees “will be deducted from the agencies’ demutualization proceeds” and has also received notice of the “increase in service fees effective April 1, 2002;” and
- “each agency is aware that their demutualization proceeds are being held under [a particular] contract and applied to pay Life Associates, Inc. expenses.”

8. It was further part of the scheme that in order to conceal from the Housing Authorities that their pension plans had received substantial proceeds from Principal's demutualization, defendant ZACHMANN caused LAI to send periodic account statements to the Housing Authorities that omitted material information about the Pension Plan Demutualization Proceeds.

9. It was further part of the scheme that between in or about July 2002 and in or about May 2007, defendant ZACHMANN fraudulently caused Principal to disburse to LAI in monthly installments the near entirety of the Pension Plan Demutualization Proceeds (together with accumulated interest), totaling at least approximately \$6,861,666. After their transfer to LAI, a substantial portion of these funds were disbursed to defendant ZACHMANN and his wife and used to pay personal expenses as well as other non-LAI business-related expenses for companies at least partially owned by ZACHMANN.

10. It was further part of the scheme that in or about February 2007, as the Pension Plan Demutualization Proceeds were nearing depletion, defendant ZACHMANN fraudulently caused Castle Bank to begin disbursing funds to LAI from the Insurance Demutualization Proceeds, which had grown in value to approximately \$2,279,470.

11. It was further part of the scheme that between in or about February 2007 and at least in or about January 2009, after LAI received approximately \$1,767,000 in Insurance Demutualization Proceeds, defendant ZACHMANN caused the transferred funds to be used in substantial part to pay personal expenses of defendant ZACHMANN

and his wife, expenses for non-LAI related businesses at least partially owned by defendant ZACHMANN, and some LAI operating expenses.

12. It was further part of the scheme that for approximately two years ending in or about January 2007, ZACHMANN concealed and caused LAI to conceal information about the Pension Plan Demutualization Proceeds, including information about the value of the Pension Plan Demutualization Proceeds and how the proceeds were being spent, when questioned by a particular Housing Authority's pension plan custodian.

13. It was further part of the scheme that from in or about July 2002 and continuing until in or about January 2009, defendant ZACHMANN, by the above means, fraudulently converted a total of at least approximately \$8,628,666 from the Pension Plan Demutualization Proceeds and the Insurance Demutualization Proceeds to the benefit of himself, his wife, certain non-LAI related businesses at least partially owned by defendant ZACHMANN, and LAI, well knowing that those funds belonged to the Housing Authorities' pension plans and group life insurance program and were to be used solely for the benefit of the plans and their beneficiaries.

14. It was further a part of the scheme that defendant concealed, misrepresented, and hid, and caused to be concealed, misrepresented, and hidden, the existence and purpose of the scheme and the acts done in furtherance of the scheme.

15. On or about May 10, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire and radio communication in interstate commerce writings, signs, signals, pictures and sounds, namely a wire transfer of approximately \$157,063 from Wells Fargo Bank in Des Moines, Iowa to Castle Bank in Dekalb, Illinois;

In violation of Title 18, United States Code, Sections 1343 and 2.



COUNT TWO

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about February 15, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$300,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT THREE

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.

2. On or about July 30, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$50,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT FOUR

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.

2. On or about August 29, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$145,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT FIVE

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about September 26, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$145,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT SIX

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about October 15, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$116,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT SEVEN

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about October 29, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$152,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT EIGHT

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about November 27, 2007, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$55,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT NINE

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.

2. On or about April 28, 2008, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$115,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.



COUNT TEN

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.

2. On or about May 1, 2008, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$150,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT ELEVEN

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about August 28, 2008, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$120,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

COUNT TWELVE

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations in paragraphs 1 through 14 of Count One of this indictment are hereby realleged and incorporated herein as if fully set forth here.
2. On or about November 1, 2008, in the Northern District of Illinois, and elsewhere,

RICHARD P. ZACHMANN,

defendant herein, for the purpose of executing the above-described scheme, did knowingly cause to be transmitted by means of wire communication in interstate commerce certain wirings, signs, signals, and sounds, namely, an electronic mail message from LAI in Sugar Grove, Illinois to Castle Bank in DeKalb, Illinois, which mail message was routed through an electronic mail server located in Memphis, Tennessee, said message requesting Castle Bank to transfer \$87,000 into LAI's bank account;

In violation of Title 18, United States Code, Sections 1343 and 2.

## FORFEITURE ALLEGATION

The SPECIAL SEPTEMBER 2011 GRAND JURY charges:

1. The allegations contained in Counts One through Twelve of this indictment are re-alleged and incorporated herein by reference for the purpose of alleging forfeiture pursuant to Title 18, United States Code, Sections 981(a)(1)(C) and Title 28, United States Code, Section 2461(c).

2. As a result of defendant's violations of Title 18, United States Code, Sections 1343 and 2, as alleged in Counts One through Twelve of this indictment,

RICHARD P. ZACHMANN,

defendant herein, shall forfeit to the United States, pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), any and all right, title, and interest in any property, real and personal, constituting and derived from proceeds traceable to the charged offense.

3. The interests of the defendant subject to forfeiture pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), include but are not limited to funds in the amount of at least approximately \$8,628,666.

4. If any of the property subject to forfeiture and described above, as a result of any act or omission of the defendant:

- (a) Cannot be located upon the exercise of due diligence;
- (b) Has been transferred or sold to, or deposited with, a third party;

- (c) Has been placed beyond the jurisdiction of the Court;
- (d) Has been substantially diminished in value; or
- (e) Has been commingled with other property which cannot be divided without difficulty,

the United States of America shall be entitled to forfeiture of substitute property under the provisions of Title 21, United States Code, Section 853(p) as incorporated by Title 28, United States Code, Section 2461(c).

All pursuant to Title 18, United States Code, Sections 981(a)(1)(C) and Title 28, United States Code, Section 2461(c).

A TRUE BILL:

\_\_\_\_\_  
FOREPERSON

\_\_\_\_\_  
UNITED STATES ATTORNEY