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Retirees' investment went south

Sun City Roseville residents lose big in what officials call a scam.

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The menu called for coffee, sweet rolls and a sales pitch.

On a July morning five years ago, 30 residents of Sun City Roseville gathered at the retirement community's clubhouse for an investment seminar led by one of their own, Sun City resident Robert Koppel.

Koppel outlined an unusual opportunity, a chance to buy shares in life insurance policies held by others. When the policyholders died, the investments -- known as "life settlements" or "viaticals" -- would pay hefty returns.

"This was a gold mine we were falling into," said Inge Walen, 73, a widow who invested \$30,000 a week later.

Today the program is in tatters, and investors are facing big losses. Koppel, 78, and seven others have been indicted in connection with what officials called a \$25 million Ponzi scheme that mainly targeted seniors. Of the 500 or so investors, "many ... are in their 50s, 60s, and 70s," the Securities and Exchange Commission said in court papers.

It's no secret that investment scams often target seniors. They are often well off, are anxious to grow their nest eggs and can be vulnerable to a friendly come-on, experts say. The problem is so widespread, affecting an estimated 5 million seniors a year, that the SEC is holding a second annual "seniors summit" in Washington, D.C., on Monday.

The latest case, involving a Redding firm called Secure Investment Services Inc., may have had particular appeal to seniors. Unlike some, the elderly aren't squeamish about investing in somebody's life insurance, said Texas attorney Michael Quilling, the court-appointed receiver who is sorting out Secure Investment's affairs.

"It's a fact of life, it's insurance policies, it's a business deal," said John Edlund, 68, a Sun City resident who invested \$50,000. "The older you get, the more you ... understand that that's a fact of life, it's the end of life and it's coming to all of us."

The fact that the policies covered strangers made it easier, Walen added. She invested in a policy on a man with colon cancer and coronary disease.

Investors were told they weren't being ghoulish. Koppel's sales materials said this was a

"humanitarian investment" that helped people who needed to sell their policies for cash. That "may pull at the heart strings of older people," said Jean Setzfand, director of financial security outreach at AARP.

Viaticals are a legitimate investment. But officials say Secure Investment, also known as American Financial Services and Lyndon Group, was a sham.

According to the indictment and an SEC lawsuit, the firm used a fake doctor to mislead investors about the policyholders' life expectancies. The firm's bonding company, which was supposed to pay investors if the policyholders didn't die on time, was a fraud. Then, as the scheme unraveled, Secure Investment used cash from new investors to keep up premium payments so the old policies wouldn't lapse.

Indicted were the two principals in Secure Investment, four sales agents and the two co-owners of the bonding company. Quilling has been put in control of the Redding firm and its finances, but full recovery for investors is unlikely.

Quilling has obtained a \$200,000 line of credit to pay premiums on the policies, valued at \$56 million. He may obtain an additional \$3 million line.

But premiums will cost at least \$100,000 a month, and the banks won't lend him enough to keep the policies going for years. So he'll likely sell most of the policies to deep-pocket investors capable of keeping up the premium payments.

Investment firms typically jump into viaticals fraud cases and buy the policies on the cheap; Quilling already has an inquiry from Credit Suisse Group.

"Wall Street has fallen in love with this stuff," he said. Credit Suisse declined comment.

Koppel, who is a licensed life insurance agent, said in a brief interview that fewer than 10 Sun City residents invested in the viaticals program. He pleaded innocent to fraud charges and was released on bond.

"I've been swept up in this thing for reasons I don't understand," he said.

He said neighbors have been supportive, but the indictment has put him in an uncomfortable position at Sun City. "We have relationships with all of these people," he said. "Most of it was word of mouth and referrals."

Residents said Koppel is fairly well known around Sun City. Walen said she hadn't met Koppel before she invested but felt comfortable in part because he's "a neighbor who lives just a few blocks from here."

Edlund said Koppel began marketing the program at Sun City in March 2002, at a presentation to the community's investment club. The title: "Double Digit Returns With No Market Risk."

In July he hosted another meeting, this time for residents he'd contacted through fliers.

Walen, who attended the second meeting, said Koppel was accompanied by another Sun City resident, Lary Banks. Koppel was alone when he came to her house a week later to sign her up.

In an interview, Banks said he disassociated himself from the program years ago. He declined

further comment.

Edlund and Walen said they nudged Koppel for details before they invested; both were assured the program was safe. Walen was comforted that her money was to be held in escrow. The indictment said it wasn't.

Walen said the first sign of trouble came two years ago, when her investment was supposed to pay her \$52,000. She received word that payment might get delayed a year because of a paperwork problem with the bond company that was supposed to guarantee the investment.

She contacted the SEC and discovered that the Redding company had been hit with a cease-and-desist order by state officials in 2003. She also learned the firm had sued the bond company.

Nonetheless, Koppel counseled patience. Last August he sent Walen an e-mail saying her policyholder "will pass away. It is not a question of if we will be paid off, but rather of when."

The likely loss of most of her investment won't impoverish Walen, but it will hurt. She wanted to take a limousine trip to her favorite restaurant in San Francisco, taking a big group of friends who've helped her convalesce after she broke her leg. That's now unlikely.

"I was ... going to take them all with me," she said. "Now wouldn't that have been fun?"

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