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9 UNITED STATES DISTRICT COURT  
10 SOUTHERN DISTRICT OF CALIFORNIA  
11

12 SECURITIES AND EXCHANGE COMMISSION,

Case No. \_\_\_\_\_ - \_\_\_\_\_

13 Plaintiff,

**COMPLAINT**

14 v.

15 AMERICAN-AMICABLE LIFE INSURANCE  
COMPANY OF TEXAS; PIONEER AMERICAN  
16 INSURANCE COMPANY; and PIONEER  
SECURITY LIFE INSURANCE COMPANY,  
17

18 Defendants.  
19  
20

21 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

22 **SUMMARY OF THE ACTION**

23 1. This case involves misleading sales to thousands of military personnel of a product  
24 consisting of life insurance coupled with an investment fund. Among other things, Defendants' sales  
25 agents suggested that military personnel could become millionaires with the product when in fact the  
26 majority of the participants earned little or nothing from their investment.

27 2. Defendants American-Amicable Life Insurance Company of Texas, Pioneer American  
28 Insurance Company, and Pioneer Security Life Insurance Company (together, "American-Amicable")

1 or the “Company”) sold the product, named Horizon Life. Because military personnel already had  
2 automatic access to low-cost government-sponsored life insurance and Horizon Life’s term life  
3 insurance component was rather expensive, American-Amicable marketed Horizon Life primarily as  
4 an investment product that could create wealth.

5 3. American-Amicable developed a sales program for companywide use in the military  
6 market. Beginning in 2000, sales agents were trained to hold themselves out as “financial advisers”  
7 or “financial coaches,” leading military personnel to believe the agents were objective advisers acting  
8 in their best interests, rather than insurance agents selling a particular product. Sales agents misled  
9 military personnel to believe they could earn \$1 million in 20 years if they put their money into the  
10 investment fund. At the same time, agents denigrated other investments, saying that mutual funds,  
11 bank savings accounts, and government bonds did not make sense. Agents also misled military  
12 personnel by saying that the life insurance portion of Horizon Life cost nothing.

13 4. Because of the way Horizon Life was structured, members of the military could not  
14 possibly earn \$1 million in 20 years by paying money into the investment fund. In reality, the  
15 majority of military personnel who purchased Horizon Life earned little or nothing from their  
16 investment.

17 5. By implementing this misleading sales program to promote investments in Horizon  
18 Life, Defendants violated the securities laws.

19 **JURISDICTION AND VENUE**

20 6. The Commission brings this action pursuant to Section 20(b) of the Securities Act [15  
21 U.S.C. § 77t(b)].

22 7. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities  
23 Act [15 U.S.C. § 77v(a)].

24 8. Defendants, directly or indirectly, made use of the means or instrumentalities of  
25 interstate commerce, or of the mails, or of the facilities of a national securities exchange in  
26 connection with the transactions, acts, practices and courses of business alleged herein.  
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1 9. Venue in this District is proper pursuant to Section 22(a) of the Securities Act [15  
2 U.S.C. § 77v(a)] because Defendants transact business, including offers and sales alleged in this  
3 Complaint, in the Southern District of California.

4 **DEFENDANTS**

5 10. Defendant American-Amicable Life Insurance Company of Texas is a privately-held  
6 insurance company based in Waco, Texas.

7 11. Defendant Pioneer American Insurance Company is a privately-held insurance  
8 company based in Waco, Texas. Pioneer American is a subsidiary of American-Amicable Life  
9 Insurance Company of Texas.

10 12. Defendant Pioneer Security Life Insurance Company is a privately-held insurance  
11 company based in Waco, Texas. Pioneer Security is the parent of American-Amicable Life Insurance  
12 Company of Texas.

13 **DEFENDANTS' MISLEADING COURSE OF CONDUCT**

14 **The Building Success Marketing System**

15 13. In 1993, American-Amicable began selling a new product targeted for sale in the  
16 military market. The Company understood that because all military personnel were automatically  
17 eligible for low-cost Servicemembers' Group Life Insurance, military personnel generally did not  
18 want to pay for supplemental life insurance coverage. American-Amicable thus developed a product  
19 called Horizon Life, which consists of term life insurance coupled with an investment fund called the  
20 Annuity Accumulation Fund. According to internal Company memoranda, the product placed "less  
21 emphasis on the death benefit" and instead was to be "sold primarily as a savings plan" with a fund  
22 that had a high interest rate. The Company was to offer the relatively high interest rate as a  
23 "marketing tool" and would be able to do so because the investment fund was inextricably coupled  
24 with "rather expensive" life insurance.

25 14. For several years, American-Amicable agents sold Horizon Life primarily by visiting  
26 military bases and making their sales on-base. In the late 1990s, however, American-Amicable  
27 turned to a new marketing program called Building Success. The Building Success marketing system  
28 showed agents how to attract military personnel to off-base offices (frequently by offering cash

1 payments, prizes, or cash referral bonuses) and how to pitch the Horizon Life product. American-  
2 Amicable began promoting the Building Success system among its agents in the military market and  
3 strongly encouraged them to adopt its sales techniques. The Company promoted the system through  
4 conference calls, mass mailings, and Company-sponsored, subsidized training seminars for agents.

5 15. In response to the Company's top-down efforts, American-Amicable agents gradually  
6 adopted the Building Success sales methods. Since 2000, American-Amicable sold Horizon Life as  
7 an investment to more than 57,000 American military personnel, and the majority of those sales were  
8 made using the Building Success system.

9 16. Although written materials provided to military personnel apparently accurately  
10 described the Horizon Life product, the verbal Building Success sales pitch used by American-  
11 Amicable agents was misleading. American-Amicable sold Horizon Life to military personnel who  
12 were largely young and financially unsophisticated. Pursuant to the Building Success sales pitch,  
13 sales agents misleadingly said that: the agents were objective financial advisers; the military  
14 personnel could become very wealthy; the Horizon Life product was superior to certain other  
15 investments; and the insurance portion of Horizon Life was free of cost.

16 **A. Agents Misleadingly Implied That They Were Objective Financial Advisers**

17 17. Under the Building Success system, American-Amicable trained its agents to present  
18 themselves to military personnel as "financial experts," "financial advisers," "financial coaches," or  
19 "financial planners." Agents were instructed to ask military personnel for their commitment to allow  
20 the agent to act as their "financial coach" who was there to help the servicemember "create wealth,  
21 reduce debt, and make smart financial choices." This so-called "coaching commitment" was  
22 portrayed as the most important part of the sales pitch, and was supposed to be obtained before any  
23 product was discussed because "that's where the sale is made."

24 18. Many American-Amicable agents sold Horizon Life through entities with names that  
25 led military personnel to believe they were dealing with a financial advisory firm, such as Investment  
26 Enterprises, Inc., California Capital Group, American Financial Services and The Financial  
27 Superstore.

28

1 19. As a result, many military personnel were led to believe they were dealing with  
2 objective financial advisers acting in the servicemembers' best interests, rather than insurance agents  
3 selling a particular product. Those military personnel purchased Horizon Life in large part based on  
4 the false belief that the agents were unbiased financial advisers who would recommend the best  
5 financial products for them.

6 **B. Agents Misled Military Personnel to Believe That They Could Become Wealthy**  
7 **with Horizon Life**

8 20. A central feature of the Building Success sales pitch involved "showing the soldier his  
9 potential." Agents were taught to accomplish this by using a compound interest table and calculating  
10 what a servicemember could earn in 20 years if he were to invest most or all of his paycheck in an  
11 unspecified instrument with a high rate of return, typically 10%. The demonstration showed how the  
12 servicemember's investment would return nearly, or more than, \$1 million. The servicemember was  
13 then directed to the Horizon Life product, which was touted as having a 10% historical interest rate  
14 on its investment fund.

15 21. Many military personnel were led to believe, based on this presentation, that they  
16 could become millionaires by buying Horizon Life and investing in the product for 20 years. In  
17 reality, because of the way the Horizon Life product was designed, military personnel were not able to  
18 contribute enough to earn \$1 million, or anything close to that amount, in that period of time.

19 22. Horizon Life (originally called Wealth Builder) consists of a 20-year term life  
20 insurance policy coupled with an "Annuity Accumulation Fund" into which military personnel can  
21 invest money. (Despite its name, the fund is not an annuity, and unlike most annuities, military  
22 personnel must pay taxes on any interest they earn.) The Company pays interest on the fund at a rate  
23 that has historically averaged over 10%, but that has gone as low as 6.5%. The Company guarantees  
24 that the interest will not fall below a certain rate, which has been either 4% or 6%, depending on  
25 when the policy was issued. The Company retains the right to adjust the interest rate at any time.

26 23. The structure of Horizon Life made it impossible for military personnel to earn \$1  
27 million in 20 years. On average, military personnel paid \$85 per month (\$1,020 per year) for a  
28 Horizon Life policy providing \$24,000 in 20-year term life insurance coverage. Most of the money

1 deducted was used to pay life insurance premiums and thus drew little or no interest. In the first year,  
2 monthly payments were allocated entirely to insurance premiums, and nothing was deposited into the  
3 investment fund. In years two through seven, 75% of the monthly payments made by most military  
4 personnel went toward insurance premiums, and 25% to the investment fund. It was not until the  
5 eighth year that the insurance premiums were fully paid up and all payments were deposited into the  
6 investment fund where they could accumulate interest. Although additional contributions of up to  
7 \$5,000 could be made to the fund each year for 20 years, most military personnel did not make such  
8 contributions. Moreover, the vast majority of military personnel who purchased Horizon Life let their  
9 coverage lapse or canceled their participation during the first seven years – often long before they  
10 were ever able to contribute a significant amount to the investment fund. For example, only 12% of  
11 Horizon Life policies sold in 1995 are still in force 10 years later. Of the policies sold in 2000, only  
12 23% are still in force. More than half of the policies sold in 2003 have-already lapsed.

13 24. The return that some military personnel realized on the investment fund was further  
14 reduced by another feature of Horizon Life, referred to as “automatic premium payment.” If a  
15 servicemember failed to pay the insurance premiums during the first seven years without explicitly  
16 canceling the Horizon Life policy, the premium payments were automatically deducted from the  
17 servicemember’s investment fund balance.

18 25. For all of these reasons, the vast majority of military personnel who purchased  
19 Horizon Life earned little or nothing from their investment.

20 26. Based on the foregoing, implying that military personnel could earn \$1 million in 20  
21 years by investing in Horizon Life was misleading.

22 **C. Agents Misleadingly Implied That Horizon Life Was Superior to Mutual Funds,  
23 Bank Savings Accounts, Government Bonds, and Government-Sponsored  
24 Insurance**

24 27. During Building Success seminars, agents were also trained to tell military personnel  
25 that putting their money in mutual funds, bank savings accounts, or government bonds is “not ideal”  
26 and “doesn’t make sense.” For example, agents learned to use the “mutual fund move” to show  
27 military personnel that investing in a mutual fund is a “less than ideal strategy” because the share  
28

1 price of the fund periodically increases and decreases, and because even if a fund reports an increase,  
2 the shareholder does not realize that increase until he sells his fund shares.

3 28. Similarly, agents were instructed to tell military personnel that bank savings accounts  
4 and government bonds “don’t make sense” because they pay a low interest rate on money that is  
5 deposited yet lend that same money out at a much higher rate. Agents were also trained to suggest  
6 that Servicemembers’ Group Life Insurance was very expensive, when in fact, it was competitively  
7 priced, especially when compared to Horizon Life.

8 29. By disparaging these instruments while selling the Horizon Life product, American-  
9 Amicable agents led military personnel to believe that Horizon Life was a superior investment  
10 alternative, when for the majority of military personnel, it was not.

11 **D. Agents Misleadingly Told Military Personnel That Insurance Through Horizon**  
12 **Life Was Free of Cost**

13 30. American-Amicable designed the Horizon Life product so that, if a servicemember  
14 held the product for 20 years, an amount equal to the total premiums paid (in the first seven years)  
15 would be deposited into the servicemember’s investment fund. An internal Company memo  
16 described this Moneyback Bonus as “an attractive marketing feature which allows us to present the  
17 product as a savings plan where the term insurance has ‘No Cost’ provided the customer persists  
18 through the 20th year.”

19 31. Based on this feature, the Company trained agents to say that insurance through  
20 Horizon Life “costs nothing.” Military personnel were led to believe that the insurance was a  
21 “bonus” or a “kicker” to the investment component of the product. Because they had access to  
22 Servicemembers’ Group Life Insurance, most military personnel had no interest in purchasing  
23 additional life insurance; they bought the insurance simply because they could not put money into the  
24 interest-bearing investment fund without it. Agents devoted little or no time to discussing the  
25 insurance and instead treated the investment fund as the main focus of their sales pitch.

26 32. While the written materials provided to military personnel accurately described the  
27 product, the verbal characterizations of the insurance component of Horizon Life were misleading for  
28 two reasons. First, they did not reflect that in the first seven years, almost 80% of a servicemember’s

1 contributions were used to pay insurance premiums, and that a typical servicemember's policy would  
2 lapse during that time. Most military personnel therefore spent the bulk of their money on insurance  
3 and deposited little into the investment fund, and few will ever benefit from a return of premiums in  
4 year 20. Second, although the rare servicemember who retains the policy for 20 years is at that time  
5 guaranteed a return of the amount paid in premiums, the servicemember will have lost the time value  
6 of money on those payments. It was thus misleading to claim that the insurance "costs nothing"  
7 based on the return of premium feature.

### 8 **CLAIM FOR RELIEF**

#### 9 **Violations of Sections 17(a)(2) and (3) of the Securities Act** 10 **[15 U.S.C. § 77q(a)(2) and (3)]**

11 33. Paragraphs 1 through 32 are re-alleged and incorporated herein by reference.

12 34. Defendants, by engaging in the conduct set forth above, in the offer or sale of a  
13 security by the use of any means or instruments of transportation or communication in interstate  
14 commerce or by use of the mails, directly or indirectly (a) obtained money or property by means of an  
15 untrue statement of a material fact or an omission of a material fact necessary in order to make the  
16 statements made, in light of the circumstances under which they were made, not misleading; and (b)  
17 engaged in a transaction, practice, or course of business which operates or would operate as a fraud or  
18 deceit upon the purchaser.

19 35. By reason of the foregoing, Defendants violated, and unless restrained and enjoined  
20 will continue to violate, Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2) and  
21 (3)].

### 22 **PRAYER FOR RELIEF**

23 WHEREFORE, the Commission respectfully requests that this Court:

#### 24 **I.**

25 Permanently enjoin Defendants from directly or indirectly violating Sections 17(a)(2) and (3)  
26 of the Securities Act [15 U.S.C. § 77q(a)(2) and (3)];

#### 27 **II.**

28 Order Defendants, as further equitable relief, to disgorge ill-gotten gains;



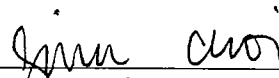
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III.

Grant such other relief as this Court may deem just and appropriate.

Respectfully submitted,

Dated: August 3, 2006

  
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