Y4
G74/6
Se8

1037

94th Congress
2d Session

COMMITTEE PRINT

GOVERNMENT DOCUMENTS
Storage
JUL 1 1976
THE LIBRARY
KANSAS STATE UNIVERSITY

STAFF STUDY

OF THE

SEVERANCE PAY-LIFE INSURANCE PLAN OF TEAMSTERS LOCAL 295

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

UNITED STATES SENATE

KSU LIBRARIES
A11900 784759

1976

Printed for the use of the Committee on Government Operations

---

U.S. GOVERNMENT PRINTING OFFICE

71-542 WASHINGTON : 1976

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $1.85
Stock Number 052-070-03465-3

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMMITTEE ON GOVERNMENT OPERATIONS

ABRAHAM RIBICOFF, Connecticut, *Chairman*

JOHN L. McCLELLAN, Arkansas
HENRY M. JACKSON, Washington
EDMUND S. MUSKIE, Maine
LEE METCALF, Montana
JAMES B. ALLEN, Alabama
LAWTON CHILES, Florida
SAM NUNN, Georgia
JOHN GLENN, Ohio

CHARLES H. PERCY, Illinois
JACOB K. JAVITS, New York
WILLIAM V. ROTH, JR., Delaware
BILL BROCK, Tennessee
LOWELL P. WEICKER, JR., Connecticut

RICHARD A. WEGMAN, *Chief Counsel and Staff Director*

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

HENRY M. JACKSON, Washington, *Chairman*

JOHN L. McCLELLAN, Arkansas
JAMES B. ALLEN, Alabama
SAM NUNN, Georgia
LAWTON CHILES, Florida
JOHN GLENN, Ohio

CHARLES H. PERCY, Illinois
JACOB K. JAVITS, New York
WILLIAM V. ROTH, JR., Delaware
BILL BROCK, Tennessee

HOWARD J. FELDMAN, *Chief Counsel*
DOROTHY FOSDICK, *Professional Staff Director*
STUART M. STATLER, *Chief Counsel to the Minority*
RUTH YOUNG WATT, *Chief Clerk*
ROLAND L. CRANDALL, *Staff Editor*

MEMORANDUM

U.S. SENATE,
COMMITTEE ON GOVERNMENT OPERATIONS,
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
Washington, D.C., May 10, 1976.

To: All Members of the Permanent Subcommittee on Investigations.
From: Senator Sam Nunn, Acting Chairman.

This staff study deals with the manner in which the severance trust fund and the fund's life insurance benefit were designed and managed for the Teamsters Local 295 in New York.

Information developed by the Subcommittee staff indicated that the severance trust fund and the fund's life insurance benefits were used by persons of questionable background to extract large amounts of money, contributed by management, that rightfully belonged to union members.

The life insurance purchased under the terms of the plan was individual whole life on each member. The whole life concept resulted in excessively high premiums and agent commissions. Administrative and legal fees were also excessively high. A more conventional group life insurance plan would have been far less expensive and the overall benefits to workers and their families far greater.

While this staff study concerns itself solely with the severance trust fund-life insurance benefit of Local 295, independent inquiry by the Subcommittee staff has revealed that similar fringe benefit plans have been designed for other union locals.

It is my view that the potential for abuse in the severance fund area is a subject requiring further examination by the Congress and the Department of Labor. Accordingly, as part of this Subcommittee's jurisdiction to make inquiry into alleged irregular practices in the labor or management field, the staff is continuing its investigation of severance trust funds and related fringe benefit programs in other union locals.

Copies of this staff study are being referred to the Departments of Labor and Justice, the Internal Revenue Service, and the Headquarters of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America.

CONTENTS

	Page
I. Introduction	1
An agreement is reached	1
Origin of investigation and subcommittee's jurisdiction	1
Definition of severance trust funds	2
Brief history of severance pay plans	2
1974 legislation	4
The potential for rapid growth of severance funds	5
II. History of Teamsters Local 295	6
Senate committee investigates Teamsters in 1950's	6
The importance of Joint Council 16	6
Formation of the "Paper" Locals	7
The union philosophy of the racketeers	7
The seven "paper" locals and their leaders	8
III. Criminal backgrounds of Harry Davidoff and Louis Ostrer	9
Harry Davidoff's police record	9
Harry Davidoff appears before the Select Committee	9
The testimony of James A. Landry	10
The criminal record of Louis C. Ostrer	10
Ostrer's link with organized crime	11
IV. Local 295 severance trust fund	13
The air freight industry in New York	13
Davidoff controls local 295	13
The Local 295 contract proposal	13
Louis Ostrer promotes severance pay plan	14
Fund grows, its purpose expands	14
Severance fund gets off to rocky start	15
Details of the severance plan-insurance benefit	16
V. Commissions on the insurance policies	18
Without agent's license, Ostrer relied on others	18
Two insurance companies provide coverage	18
Fringe Programs, Inc	18
Executive Life Insurance pays advance commissions	19
Interview with Cy Reeves Snyder	19
The loans are guaranteed	20
Forst, Lochner sign checks	20
Trans World takes over the 295 account	21
Trans World pays commission advances	22
Henry Brown cashes checks for Ostrer	22
The Kings Lafayette Bank check is explained	23
Third-year advances are returned	24
VI. Evaluations of the severance pay-insurance plan	25
Subcommittee asks actuaries to examine fund	25
New York insurance department examines fund	25
The GAO studies fund	26
A critique of the Ostrer concept	28
Ostrer misled Local 295 members	28
Letters are not answered	29
The Belmont stock case	29
VII. Corrective actions and related events	32
Reforms are implemented in fund	32
James Hoffa's book	32
Reader's Digest article	32
April 18, 1974 citation	33
VIII. Findings and conclusions	35

APPENDIXES

		Page
I.	New York Post article headlined, "The Life & Times of Harry Davidoff," December 15, 1972	37
II.	New York Daily News article headlined, "Swindler Makes 250G Bail But Still Winds Up in Jail," February 25, 1973	39
III.	U.S. General Accounting Office document of April 13, 1973 entitled, "Review of Plans, Programs and Financial Transactions Relating to the Severance Benefit Trust Fund of Local 295"	39
IV.	Affidavit of Otto Forst, May 31, 1972	44
V.	U.S. General Accounting Office study of Local 295 severance trust fund, dated May 21, 1973	49
VI.	Report on Local 295 severance trust fund, dated June 25, 1971, prepared for the Senate Permanent Subcommittee on Investigations by Lawrence M. Hyman, Supervising Examiner, New York State Insurance Department; George Perla, Senior Examiner, New York State Insurance Department; and Herbert L. Feay, Assistant Director and Actuary, U.S. General Accounting Office	98
VII.	Findings of Fact, Conclusions and Decision by the New York State Insurance Department, dated October 4, 1967, regarding Louis Ostrer, Samuel Schienhaus and Seymour Greenfield; press release, dated December 22, 1967, issued by New York State Insurance Department concerning Louis Ostrer	106
VIII.	New York Insurance Department Report of Examination of Local 295 Severance Trust Fund as of June 30, 1971, No. 0–232–0295	108
IX.	Subcommittee memorandum of November 23, 1971 entitled, "Interview of Cy Reeves Snyder re Louis Ostrer and Severance Benefit Fund of Local 295, IBT," from Stephen B. King and William F. Gibney to John P. Constandy, and memorandum of February 22, 1972 from King and Robert Dunne to Constandy	117
X.	Check No. 6592, dated December 17, 1970 drawn on the account of the Executive Life Insurance Company of New York, payable to Cy Reeves Snyder, in the amount of $25,000; Check No. 6593, dated December 17, 1970, drawn on the account of Executive Life, payable to Cy Reeves Snyder, in the amount of $50,000; Check No. 6651, dated December 21, 1970, drawn on the account of Executive Life, payable to Cy Reeves Snyder, in the amount of $25,000, Check No. 6945, dated January 25, 1971 drawn on the account of Executive Life, payable to Cy R. Snyder Agency, Inc., in the amount of $35,000; Check No. 6944 dated January 25, 1971, drawn on the account of Executive Life, payable to Cy R. Snyder, in the amount of $50,000; and Check No. 6946, dated January 28, 1971, drawn on the account of Executive Life, payable to Cy R. Snyder Agency in the amount of $150,000	119
XI.	Memorandum, dated December 10, 1970, from Harry O. Miller to Otto Forst	122
XII.	Norbert F. Lochner affidavit, June 12, 1972	122
XIII.	Check No. 610, dated March 4, 1971, drawn on the account of Executive Life Insurance Company of New York, payable to Dina Gelman, in the amount of $2,232.47; Check No. 1063, dated April 5, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $22,129.87; Check No. 1148, dated April 9, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $22,154.09; and Check No. 1155, dated April 12, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $50,000	124

XIV. Check No. 443, dated February 22, 1971, drawn on the account of Executive Life Insurance Company of New York, payable to Dina Gelman, in the amount of $25,000; Check No. 1466, dated May 14, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $5,671.88; and cashier's Check No. 2610093, paybale to Dina Gelman pursuant to instructions of Executive Life, in the amount of $20,000 ---- Page 126

XV. Affidavit of Russell J. Lasher, August 30, 1972 ---- 128

XVI. Affidavit of Joseph J. Warren, June 19, 1972 ---- 129

XVII. Check No. 20522, dated September 22, 1971, drawn on the account of Trans World Life Insurance Company, payable to Viscount Agency, Inc., in the amount of $25,000; Check No. 20523, dated September 22, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $25,000; Check No. 20919, dated October 8, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $15,000, Check No. 20920, dated October 8, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $15,000; Check No. 21145 dated October 18, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $20,000; Check No. 22152, dated November 29, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $10,000; and Check No. 22169, dated November 30, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $30,000 ---- 133

XVIII. Check No. 22191, dated December 1, 1971, drawn on the account of Trans World Life Insurance Company, payable to Dina Gelman Agency, in the amount of $100,000; Check No. 22253, dated December 3, 1971, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $60,000; Check No. 22709, dated December 17, 1971, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $40,000; Check No. 22969, dated January 4, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $30,000; Check No. 23072, dated January 6, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $70,000; and Check No. 23144, dated January 10, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $20,000 ---- 135

XIX. Separate affidavits of Henry Brown, dated December 9, 1971; June 16, 1972; July 28, 1972; and September 8, 1972 ---- 138

XX. Affidavit of Michael McEnroe, July 14, 1972 ---- 146

XXI. Statement of Kings Lafayette Bank, New York, in which Seymour Greenfield was certified as secretary of the Modern Agency, Inc., and its sole signator ---- 147

XXII. Statement of Kings Lafayette Bank in which Seymour Greenfield of Viscount Agency opened a personal checking account ---- 150

XXIII. Check No. 6946, dated January 25, 1971, drawn on the account of the Executive Life Insurance Company of New York, payable to Cy R. Snyder Agency, in the amount of $150,000 ---- 150

XXIV. Cashier's Check No. 103–001916, dated January 27, 1971, drawn by Michael McEnroe, payable to S. Greenfield, in the amount of $25,000; cashier's check No. 103–001917, dated January 27, 1971, drawn by Michael McEnroe, payable to D. Gelman, in the amount of $25,000; and Check No. 103–001918, dated January 27, 1971, drawn by Michael McEnroe, payable to H. Brown ---- 151

XXV. Separate Kings Lafayette Bank statements closing out the account of the Modern Agency, Inc., care of Seymour Greenfield; and the personal account of Seymour Greenfield, both closings dated February 22, 1971 ---- 154

		Page
XXVI.	Check No. 23345, dated January 14, 1972, drawn on the account of Trans World Life Insurance Company, payable to Dina Gelman Agency, in the amount of $50,000; and Check No. 23709, dated January 27, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $25,000	156
XXVII.	Letter of April 24, 1972 from Joseph J. Warren to Dina Gelman	157
XXVIII.	Check No. 124, dated April 26, 1972, drawn on the account of Dina Gelman Agency, payable to Trans World Life, in the amount of $25,000; and Check No. 125, dated April 26, 1972, drawn on the account of Dina Gelman, payable to Trans World Life, in the amount of $50,000	158
XXIX.	Separate letters each dated March 30, 1973, from Howard J. Feldman to Harry Davidoff and Louis Ostrer	159
XXX.	Letter of January 16, 1973, from Michael Hunt to Fringe Programs, Inc	159
XXXI.	Subcommittee memorandum of February 21, 1973, entitled, "Local 295 Severance Trust Fund, Selection of Insurance Carrier by Trustees of Fund," from Maurice Frame to John P. Constandy	160
XXXII.	Amendment to Local 295 Severance Trust Fund, effective February 1, 1973	160
XXXIII.	"The Mafia Tightens Its Grip on the Teamsters" by Lester Velie, Reader's Digest, August 1974	161
XXXIV.	State of New York Insurance Department Citation regarding Local 295 Severance Trust Fund, April 18, 1974	165
XXXV	News release of the State of New York Insurance Department issued March 4, 1976	173

I. Introduction

AN AGREEMENT IS REACHED

Harry Davidoff and Louis Cuple Ostrer were men with different backgrounds. Davidoff was a tough, plain spoken labor leader who had grown up on the streets of New York. Ostrer, who had come to the United States from his native Rumania, was an insurance executive with a penchant for abstract thought and for making complicated actuarial theories easy to understand. But in the fall of 1970 these two men who seemed to have so little in common came together and made an agreement.

Their plan was simple enough. Davidoff would use his considerable influence as secretary-treasurer of Teamsters Local 295 to persuade his membership to adopt Ostrer's new concept of severance pay and life insurance for workers.

The plan was accepted. In December of 1970, the union contract contained a severance fund provision and Louis Ostrer was put in charge of managing the fund as well as overseeing the insurance feature.

However, the agreement between Davidoff and Ostrer—and the severance fund-life insurance program that resulted from it—set off controversy and raised serious questions. Soon the severance fund-life insurance plan became the subject of inquiry by the Senate Permanent Subcommittee on Investigations.

In addition, Harry Davidoff and Louis Ostrer themselves became subjects of Subcommittee inquiry. For, in spite of their differing backgrounds, they did have some things in common. They were both felons. They both had ties with organized crime. And neither of them should ever have been entrusted with responsibility for millions of dollars in labor-management trust funds.

Although no hearings were held, the staff completed its investigation and compiled its case. What follows is the study by the staff of the Senate Permanent Subcommittee on Investigations of the severance trust fund and its life insurance benefit of New York Local 295 of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America.

ORIGIN OF INVESTIGATION AND SUBCOMMITTEE'S JURISDICTION

The Senate Permanent Subcommittee on Investigations of the Committee on Government Operations is, by present and past Senate resolutions, authorized to examine alleged criminal activity in labor-management relations.

In February of 1971, the Subcommittee began a preliminary inquiry into the severance fund of Teamsters Local 295.

The Subcommittee's interest in Teamsters Local 295 was prompted by information which alleged that the local's severance trust fund was being managed with questionable procedures and policies.

It was alleged that because of these questionable practices the members of Local 295 were being deprived of benefits due them. It was further alleged that certain leaders of the local and certain of the leaders' business associates were profiting illegally or unethically from severance fund operations.

DEFINITION OF SEVERANCE TRUST FUNDS

A severance trust fund is a fund of money usually created as the result of a labor agreement, from which cash payments or other benefits are provided qualified employees upon termination of their employment with a covered employer, in accordance with a severance pay plan. In most cases, the plans are jointly administered.

The payments, usually in lump sum, are made to employees when they quit their jobs or are fired or laid off. In the event of death, the employees' beneficiaries receive the severance fund payment.

Severance funds are financed by contributions from management alone or from management together with union members. The funds are controlled by trustees who represent both management and labor, or management alone.

Payment to employees from the severance trust fund is commonly referred to as "severance pay." Severance pay is usually a "fringe benefit;" that is, it is a benefit unions win for their members in addition to higher wages. Examples of other major fringe benefits are retirement pensions, health and life insurance programs, vacations, annuities and savings programs and apprenticeship training.

BRIEF HISTORY OF SEVERANCE PAY PLANS

At the Subcommittee's request, the Economics Division of the Congressional Research Service of the Library of Congress prepared a brief history of union severance trust funds in the United States.[1]

The first severance pay plans were started in the early 1920's when a form of lay-off notice payments were made to employees by certain companies. The companies implementing these plans were large, had mostly white collar employees, had small labor costs and did business for the most part in noncompetitive markets.

In the mid-1920's, several unions began to include severance pay provisions in their negotiated contracts. In 1925, for example, the International Ladies Garment Workers Union reached an agreement with the New York Dress Manufacturers Association in which at least two weeks' wages were paid to workers displaced by labor-saving devices. Employees laid off because of shop reorganization were to be paid from one to four weeks' wages depending on their length of service.

In 1926, the Amalgamated Clothing Workers negotiated a plan with Hart, Schaffner and Marx to pay 236 displaced cutters $500 each. The money was paid from funds contributed by the company and by cutters remaining on the job.

In May of 1936, railroad unions and the railroad industry signed the Washington Job Protection Agreement in which it was stipulated that

---

[1] Memorandum of August 27, 1975 entitled, "Information relating to severance pay fund," prepared by Charles V. Ciccone, Specialist, Labor Economics and Relations, Congressional Research Service, Library of Congress, for the Senate Permanent Subcommittee on Investigations.

workers laid off because of consolidations would receive 60 percent of their average monthly pay for periods varying according to their length of service.

In 1940, the Congress amended the Interstate Commerce Act to provide pay protection to workers let go because of mergers. In 1944, the policy was extended to workers displaced because of abandonment of railroad lines.

The Communications Act of 1934 was amended in 1943 so that workers fired due to mergers of telegraph companies would receive one month's pay for each year of seniority.

During World War II, controls on wages triggered new efforts toward better employee benefits. Moreover, workers and union leaders feared that mass layoffs would occur when the war ended. These factors led to demands for severance pay benefits.

Accordingly, the War Labor Board ordered adoption of a plan giving employees displaced by post-War plant shutdowns at least four weeks' pay for workers with 10 or more years of service.

Since 1944, there has been a slow but steady rise in the number of negotiated severance pay plans. Government figures, compiled by the Bureau of Labor Statistics, show that in 1944 only 5 percent of the agreements studied contained severance pay provisions. Only a few industries, notably the newspaper publishing and railroad industries, had adopted the principle of severance pay to any considerable extent.

By 1949, 168—or 8 percent—of the 2,137 agreements studied provided for severance pay. These contract provisions tended to be in the communications, rubber, printing and publishing industries.

Some 266—or 16 percent—of 1,693 labor-management agreements covering 1.75 million workers contained severance pay benefits in the period of 1955 to 1956. Half of these agreements were in the communications, primary metals and electrical machinery industries.

While the severance pay contract provisions went from 5 percent to 16 percent from 1944 to 1956, this was a relatively slow pace when compared to the spread of pension plans and health and insurance programs built into collective bargaining pacts of the same period. However, the need for severance pay plans had been lessened somewhat by the post-War increases in supplementary unemployment programs and the enactment of unemployment compensation laws. But severance plans did continue to grow.

In the 1958 auto workers negotiations, severance pay arrangements were integrated into the supplementary unemployment benefit program. The International Ladies Garment Workers Union won acceptance of a widely praised severance pay plan in their 1958 negotiations. And other unions, especially in the electrical and maritime industries, also included some form of severance pay protection in their contracts.

By 1971, severance pay plans were found to be in use in 237—or 38 percent—of the 620 selected labor contracts examined by the Bureau of Labor Statistics.

Several factors have contributed to the growth of severance pay plans.

First, union leaders consider the severance issue of special significance to older workers who feel that it would be more difficult for them to find new employment should they lose their jobs.

Additionally, the rise in plant closures and relocations, coupled with increasing company mergers, has given severance pay a higher priority in the list of fringe benefits.

Finally, union negotiators are focusing more attention on winning fringe benefit increases in contracts because, in the better salaried industries, pay raises are often offset by higher taxes and are, therefore, less meaningful than in previous years.

From a management point of view, a benefit like a severance fund contribution satisfies a union's demand for increased compensation without raising other costs such as the hourly overtime wage. Severance fund contributions are also tax deductible.

Prior to enactment of the Employee Retirement Income Security Act of 1974, the federal government did not regulate union severance trust funds and pay plans to any significant extent. However, a few federal laws in effect prior to 1974 did relate to severance pay plans.

A 1959 amendment to section 302(c) of the Taft-Hartley Act, as amended, allows employers to contribute to jointly-administered severance trust funds if the severance pay plans meet certain stated requirements. For example, the kind of benefits provided must be spelled out in a written agreement and there must be an annual audit of the fund, the results of which must be made available to interested parties.

Section 302 of Taft-Hartley also states that the severance fund must be administered equally by management and the union. There must be a provision for recourse to a third party in cases of disagreement.[2]

Another federal law—the Labor-Management Reporting and Disclosure Act of 1959, as amended—provides for more specific availability of information about benefit plans. Section 201 of the Act requires the filing of financial reports by labor organizations with the Department of Labor. The report is to include information with respect to insurance and other benefits as well as all relevant data about union operations, including assessments, disbursements, annual financial reports, assets, liabilities and receipts.[3]

In addition, the Internal Revenue Service (IRS) of the Treasury Department examines tax exempt trusts (severance pay plans) to determine if employer contributions are legitimate business expenses and are, therefore, tax deductible. IRS says that employers may deduct severance fund contributions if more than half of the money in the fund is for severance pay. This IRS provision enables severance fund money—as much as 49.9 percent of it—to be used for fringe benefits other than severance pay.[4]

1974 LEGISLATION

On September 2, 1974, the Employee Retirement Income Security Act (ERISA) became law. ERISA, public law 93–406, includes in its coverage any benefit described in section 302(c) of the Labor Management Relations Act of 1947 (Taft-Hartley). Section 302(c) covers "a trust fund established . . . for the purpose of pooled vacation, holiday, severance or similar benefits." Severance pay plans

---

[2] Text of Labor Management Relations Act, 1947, as amended by Public Law 86–257, 1959.
[3] Labor Management Reporting and Disclosure Act of 1959, as amended.
[4] Memorandum of August 17, 1973 entitled, "Information relating to severance pay fund."

are now under the jurisdiction of the U.S. Department of Labor and the Internal Revenue Service.

While the new law does not mandate pension or welfare benefit plans, it does protect participants and beneficiaries of existing plans against mismanagement and misrepresentation. The law is designed to require adequate public disclosure of the administrative and financial affairs of employee pension and welfare benefit plans; establish minimum standards of fiduciary conduct for trustees, administrators and others dealing with plans; provide for appropriate remedies, sanctions and ready access to the federal courts; establish standards for vesting and funding; and provide for adequacy of plan assets by insuring unfunded portions of promised benefits.

ERISA covers employee pension and welfare benefit plans falling under the Commerce Clause jurisdiction but does contain certain specific exemptions. Among the exemptions are plans established by unions which do not provide for employer contributions after the date of enactment of the law; and church and governmental plans.

The Act sets forth a number of criminal violations including willfully violating reporting and disclosure provisions, embezzlement, kickbacks, false statements, concealment of facts, intentional violation of the office-holding prohibitions and willfully interfering with benefit rights through fraud or coercion. In addition, the law provides for civil equitable or remedial relief.

Various effective dates of coverage are set in the law depending on the nature of the matter to be covered. For example, participation and vesting for new plans became effective on the date of enactment, September 2, 1974; for existing plans on December 31, 1975; while collectively bargained plans will come under the law on the date of expiration of the contract or December 31, 1980. Other effective dates (but none before July 1, 1974) are set for termination insurance and fiduciary liability; the latter became effective January 1, 1975.

Under the law, employee pension and welfare plan administrators must file with the U.S. Department of Labor certain plan descriptions, annual reports, termination reports and other plan documents as required by the Secretary of Labor. Additional reports are required to be filed with the Pension Benefit Guarantee Corporation and with the IRS.

THE POTENTIAL FOR RAPID GROWTH OF SEVERANCE FUNDS

There is considerable potential for quick accumulation of large amounts of money in severance trust funds. For example, it is possible that if a union local with 5,000 members negotiates a collective bargaining agreement that includes a severance trust fund, the employer might agree to contribute $1 an hour for each of his workers. Computing on the basis of a 40-hour week, the trust fund would receive $200,000 each week. Annual revenues, before interest and excluding pay-outs, would be $10.4 million.

II. History of Teamsters Local 295

SENATE COMMITTEE INVESTIGATES TEAMSTERS IN 1950's

The Senate created the Select Committee on Improper Activities in the Labor or Management Field in March of 1957. The Select Committee was, in effect, an arm of the Senate Permanent Subcommittee on Investigations. The Select Committee Chairman, Senator John L. McClellan of Arkansas, was also Chairman of the Investigations Subcommittee. Three of the other Senators on the Select Committee also served on the Investigations Subcommittee. The Select Committee's staff included men and women assigned from the Investigations Subcommittee. And the Select Committee's rules and procedures were those of the Investigations Subcommittee.[5]

The Select Committee focused considerable attention on the activities of the Teamsters Union and its executives, including Dave Beck, the president, and James R. Hoffa, a vice president who later became president.

The Select Committee issued interim reports in 1958 and 1959 and a four-part final report in 1960. It is from these reports and from the two and a half years of public hearings held by the Select Committee that this staff study gathered information on the creation of Local 295.[6]

THE IMPORTANCE OF JOINT COUNCIL 16

In the mid-1950's, James Hoffa was trying to unseat Dave Beck as president of the Teamsters International. One move Hoffa made was to try to take control of the powerful Teamsters Joint Council No. 16 in New York City.[7]

Joint Council 16 was important to Hoffa's ambitions because it controlled the flow of goods and services in and out of and within New York City. Council 16 had the authority to approve Teamsters strikes and to grant or withhold Teamsters support for strikes staged by other unions.[8]

In addition, New York, as much as any other city in the United States, is dependent on services for its economic life. And in providing these services, the Teamsters Union plays a key role. Teamsters deliver food, pick up garbage, transport freight. Few aspects of New York commerce are not affected by the Teamsters. New York would quite literally close down if the men who drive its trucks stayed home.

---

[5] Hearings before the Senate Select Committee on Improper Practices in the Labor or Management Field 85th Congress, First Session, pursuant to Senate Resolution 74, 85th Congress, Parts 1–58, February 26 1957—September 9, 1959; First Interim Report March 1958; Second Interim Report, part 1, August 1959; Second Interim Report, part 2, October 1959; Final Report, part 1, February 1960; Final Report, part 2, March 1960; Final Report, part 3, March 1960; Final Report, part 4, March 1960.

[6] *Ibid.*

[7] Interim Report of the Select Committee on Improper Activities in the Labor or Management Field, March 17, 1958, pp. 198–199.

[8] *Ibid.*

By controlling Council 16, then, Hoffa could have exercised significant influence over the course of organized labor in the New York area. Hoffa would also have become pre-eminent in the ability of New York, America's biggest city, to survive.[9]

FORMATION OF THE "PAPER" LOCALS

Hoffa, who was a vice president of the Teamsters International wished to take over Joint Council 16 at the same time labor racketeers and organized crime figures had designs on the Council.[10]

The two groups—the Hoffa loyalists and mobsters—entered into an alliance. Together they formed seven locals. With these new locals, Hoffa and his allies hoped to outnumber—and out vote—existing locals in Joint Council 16.[11]

The new locals—Nos. 295, 275, 651, 258, 269, 284 and 362—were "paper" organizations at the start since they lacked members.[12]

THE UNION PHILOSOPHY OF THE RACKETEERS

The racketeers whom James Hoffa allied with in the mid-1950's were not newcomers to the labor movement. Two of them, in fact—Anthony (Tony Ducks) Corallo and John (Johnny Dio) Dioguardi—were well established labor racketeers.

Corallo had long been considered by law enforcement authorities to be one of the most powerful underworld figures in New York. His principal pursuits were in illicit narcotics and labor rackets.

Corallo acquired the nickname of "Tony Ducks" because of his ability to escape convictions when arrested. His police file showed 12 arrests but only one conviction, a six months sentence in 1941 for unlawful possession of drugs.[13]

Dioguardi, or Johnny Dio, had 12 arrests and three convictions—for extortion, for extortion and conspiracy, and for tax evasion—and, like Corallo, was also active in the labor movement. He was a regional director of the United Auto Workers-American Federation of Labor (UAW–AFL) locals in New York.[14]

Corallo and Dioguardi and their associates eagerly betrayed the interests of union members in return for money and power for themselves.[15]

The Select Committee exposed many instances when Corallo and Dioguardi unions entered into collusive contracts which called for wage rates lower than the national minimum wage enacted by Congress.

In other instances, workers were forced to join unions not of their own choosing or made to work in sweatshop conditions in bitter cold or extreme heat. They were often passed around from one union to another.

Witnesses from both labor and management testified about illegal and strongarm tactics used by unions controlled by Corallo, Johnny Dio and their criminal associates. Workers told Senators how they were ordered to join corrupt locals or face the threat of being fired.

---

[9] *Ibid.*
[10] *Ibid.*
[11] *Ibid.*, p. 163.
[12] *Ibid.*, p. 199.
[13] *Ibid.*, p. 173.
[14] *Ibid.*, pp. 167, 170.
[15] *Ibid.*, pp. 162–221.

They told of union contracts negotiated in secret, contracts that gave them miniscule raises and no vacations, no seniority rights, no welfare benefits and only two, three or four holidays a year.

Workers found themselves afraid of their own union. They were not given copies of the contracts they worked under. Their business agents were not known to them. Union meetings were rarely held. Elections were unheard of.[16]

THE SEVEN "PAPER" LOCALS AND THEIR LEADERS

The plan to take over Council 16 was implemented. The five UAW–AFL locals controlled by Johnny Dio were transferred into the Teamsters November 8, 1955. The same day two existing Teamsters locals were split up and two new locals were created.[17] The seven new locals had seven votes each for a total of 49, margin enough, Hoffa hoped, to elect a Council president of his choosing.

Although the subsequent election was later voided in court, 42 of 49 new votes were cast for Hoffa's candidate.[18]

The Select Committee on labor-management rackets found that the Corallo-Dio labor mob the Teamsters now housed included 40 men in positions of trust who, among them, had been arrested a total of 178 times and convicted 77 times for crimes such as theft, violations of narcotics laws, extortion, conspiracy, bookmaking, use of stench bombs, felonious assault, robbery, possession of unregistered stills, burglary, violation of gun laws, being an accessory to murder, forgery, possession of stolen mail and disorderly conduct.[19]

One of these men was Harry Davidoff, a convicted felon with a record of 12 arrests going back to 1936.[20] Davidoff had been an officer in the UAW–AFL Local 649, an organization Johnny Dio used as his headquarters. With the changeover to the Teamsters, Dio named Harry Davidoff head of Teamsters Local 258.[21] Davidoff later was reassigned to run the affairs of the newly created Teamsters Local 295.

It was as secretary-treasurer and principal leader of Local 295 that Davidoff, in 1970, got into the severance fund business with Louis Cuple Ostrer.

---

[16] *Ibid.*
[17] *Ibid.*
[18] *Ibid.*, pp. 210, 211.
[19] *Ibid.*, p. 167.
[20] *Ibid.*, p. 170.
[21] *Ibid.*, p. 199; exhibit facing p. 202.

III. Criminal Backgrounds of Harry Davidoff and Louis Ostrer

HARRY DAVIDOFF'S POLICE RECORD

A New York newspaper once described Harry Davidoff as a "tough looking, tough talking man with a sixth grade education" who had been "shot, arrested, questioned by Congressional panels and investigated by the FBI." [22]

Similarly, the Subcommittee found Davidoff to be a ruthless New York thug, a gangster who gravitated to the labor movement for no other reason than to steal from it.

Harry Davidoff's crime career began in 1933 when, at the age of 15, he was arrested for burglary. He was sentenced to three years probation.[23]

From 1934 to 1939, Davidoff was arrested—but not convicted—for felonious assault with a knife, possession of a gun, grand larceny and robbery.

In 1940, Davidoff received a suspended sentence for attempted extortion. He was convicted and fined $25 for bookmaking in 1943.

It was also in the 1940's that Davidoff moved into the leadership of organized labor as he went from positions of responsibility in one local to another in the New York area.

In one of his jobs—as president of the AFL Local 130, Toy and Doll Workers—Davidoff became a trustee of the welfare fund. The New York Insurance Department found that Davidoff had siphoned off $4,000 from the fund for a new car for himself and was paying himself $225 a week from the fund as well as taking $75 a week from it for expenses.

When his payments from the welfare fund came to light, Davidoff left the Toy and Doll union and went to other unions and other positions of trust, eventually finding his way into Johnny Dio's UAW–AFL Local 649 and then into the Teamsters' "paper" locals November 8, 1955.

HARRY DAVIDOFF APPEARS BEFORE THE SELECT COMMITTEE

On August 14, 1957, Harry Davidoff, under subpoena, appeared before the Select Committee on labor-management rackets.

The Chairman, Senator John L. McClellan of Arkansas, and his Chief Counsel, Robert F. Kennedy, questioned Davidoff extensively about his activities in the labor movement.

To each question, Davidoff refused to respond, invoking 45 times his 5th Amendment right not to testify because his answers might have incriminated him.[24]

---

[22] New York Post article headlined, "The Life & Times of Harry Davidoff," December 15, 1972, p. 2. (See Appendix I.)
[23] Interim Report of the Select Committee, March 17, 1958, p. 170.
[24] Hearings before the Senate Select Committee, part 12, August 14, 1957, pp. 4523–4532.

71-542—76——2

THE TESTIMONY OF JAMES A. LANDRY

James A. Landry, the general counsel of the Air Transport Association of America, testified before the Senate Permanent Subcommittee on Investigations June 24, 1971 on the subject of airport security.[25]

The hearings at which Landry testified were in connection with the Subcommittee's investigation of the role of organized crime in the worldwide traffic in stolen securities. Many of these securities are stolen from mail bags at major airports.

Landry said the airlines, deeply troubled by airport thievery, had formed an Airport Security Council in 1968 and that, due to the Council's efforts, some progress had been made in controlling the number of thefts.

Landry said thievery at the John F. Kennedy International Airport was still very high but that statistics showed the crime rate to be declining. Thefts and losses in 1969 at JFK were $3.4 million, Landry said, but in 1970 they dropped to $1.4 million.

In addition, Landry said an Airport Security Council study found that the major gangsters involved in thievery from New York airports were out of circulation now, having been convicted of federal crimes. All the "principal hoodlums" in airport thievery had been caught, Landry said—except one, Harry Davidoff. Landry's Airport Security Council concluded that "Harry Davidoff is the only remaining key organized crime figure associated with JFK Airport who has not been arrested as a result of investigations conducted by federal and local law enforcement authorities with the cooperation of the air cargo industry." [26]

THE CRIMINAL RECORD OF LOUIS C. OSTRER

Louis Cuple Ostrer had come to Harry Davidoff with the idea for the severance pay-life insurance plan in 1970. In the 1960's, Ostrer was alleged to have stolen several hundred thousand dollars from the Canada Life Assurance Company. He was caught, charged with grand larceny, found guilty and given a five-year suspended sentence. His license to sell insurance would have been revoked but the State of New York had already done that.

As an agent for the Canada Life Assurance Company, Louis Ostrer sold to the Allmetal Screw Products, Inc., Garden City, New York, insurance policies on the lives of several of the firm's executives.

In 1964, Ostrer convinced the corporation's officials that it would be to their advantage to prepay for several years the future premiums on 12 policies. As a result, Allmetal drew 12 checks on March 10, 1964, all to the order of Canada Life Assurance Company. Two of these checks were for $60,810.28 and the other 10 were for $25,772.13 each.

The 12 checks, which totalled $379,341.86, were delivered to Ostrer.

It was alleged that Ostrer altered the checks by adding the phrase "Louis C. Ostrer Associates Agents for" just before the words "Canada Life Assurance Co."

---

[25] Hearings before the Senate Permanent Subcommittee on Investigations entitled "Organized Crime—Stolen Securities," part 2, June 24, 1971, pp. 376–420.

[26] *Ibid.*, pp. 378, 379.

Ostrer took six of the checks which were for $25,772.13 each to Henry Brown, a broker who operated the midtown Commercial Corporation at 301 West 39th Street in New York. Brown cashed the checks for Ostrer.

Some three years later—in February and March of 1967—Ostrer advised Canada Life that Allmetal wanted to take out loans on the policies it held on its executives. Canada Life recieved formal requests from Ostrer which bore the forged corporate seal of Allmetal and the forged signature of Allmetal officers.

The Canada Life Assurance Company forwarded to Ostrer checks totalling $396,000. Ostrer was found out but not before he had cashed eight checks worth $338,000.[27]

Charged with grand larceny of some $300,000, Ostrer pled guilty and received a suspended sentence.[28]

Canada Life Assurance conducted an investigation into Ostrer's activities while he represented the insurance company. The investigation showed that Ostrer's larcenies from Canada Life were not limited to the approximately $700,000 from the 1964 and 1967 thefts. It was asserted that Ostrer's larcenies from the Canadian firm actually were more than $1.2 million.[29]

As for the $300,000 which Ostrer pled guilty to having stolen, the sentencing judge—Manhattan Supreme Court Justice Xavier C. Riccobono—gave Ostrer five years' probation and ordered him to make restitution. Then the judge explained why he was not sending Louis Ostrer to jail.

Justice Riccobono said to Ostrer:

> It would appear that almost any venture you undertake, obviously because of those talents and gifts that have been given to you by the Almighty Himself, seems to enable you to convert almost anything into a very successful enterprise. It is inadvisable, under these circumstances, for the court to take these God-given talents and incarcerate them by incarcerating you.[30]

In addition to the Allmetal case, Ostrer was arrested July 6, 1967 by New York police for possession of $20,000 in stolen municipal bonds. No conviction resulted from this arrest.[31]

On January 4, 1973, trial was held in federal court in the Southern District of New York in which Ostrer and John Dioguardi were charged with conspiracy and stock fraud in connection with the manipulation of stock of the Belmont Franchising Corp. The case was prosecuted by Assistant U.S. Attorney Harold McGuire, Jr. Ostrer and Johnny Dio were convicted. More details of this case are presented later in this staff study, beginning on page 29.

OSTRER'S LINK WITH ORGANIZED CRIME

Harry Davidoff's association with organized crime was a long established fact. He was Johnny Dio's man in labor rackets and law enforcement agents had so identified him for many years.

---

[27] Investigation Report concerning Louis Ostrer prepared by the Probation Department, New York County, Case No. 5333/68.
[28] *Ibid.*
[29] *Ibid.*
[30] New York Daily News article headlined, "Swindler Makes 250G Bail But Still Winds Up in Jail," February 25, 1973. (See Appendix II.)
[31] Investigation Report, New York County.

By contrast, until the 1970's Louis Ostrer's link with organized crime was not obvious. Insurance was his line and he had a reputation for knowing the business very well, both in theory and in practice. Nonetheless, Ostrer had ties with organized crime figures.

Ostrer's associates included Anthony (Tony Ducks) Corallo, Johnny Dio, Anthony (Hickey) DiLorenzo, Ruby Stein, Nicholas (Jiggs) Forlane, Milton Holt and John Masiello, all of whom are well known organized crime figures.

IV.—Local 295 Severance Trust Fund

THE AIR FREIGHT INDUSTRY IN NEW YORK

The truck drivers who deliver air cargo to and from and around the New York airports belong to Teamsters Local 295. There were about 1,400 members of Local 295. Its offices are located on the outskirts of the John F. Kennedy International Airport at 179–30 149th Avenue, Jamaica, New York. [32]

The air freight industry in the New York area was comprised of one very large company—Emery Air Freight—and about 35 smaller firms, some of which had only two or three trucks.

DAVIDOFF CONTROLS LOCAL 295

In 1971, when Subcommittee Investigators began this inquiry, they found Harry Davidoff to be in firm control of Local 295. Davidoff was being paid an annual salary of $57,000 and had the use of a Lincoln Continental provided by the union. In addition, Davidoff, then 56, could look forward to a comfortable retirement of $20,000 a year and a severance payment from the local. Davidoff had also formed a new Teamsters local—No. 851—and had transferred to it all non-freight shops previously covered by Local 295. Housed in the same offices as Local 295, Local 851—the Miscellaneous Production and Industrial Workers Union—used the same phone and its secretary-treasurer was the same Harry Davidoff.

THE LOCAL 295 CONTRACT PROPOSAL

The air freight industry and Local 295 negotiated their labor contracts on a three-year basis. The contract entered into December 1, 1967 was to expire November 30, 1970. A new three-year contract was anticipated.

Accordingly, in 1970, Davidoff was putting together a wide ranging contract proposal that included demands for sizable wage hikes and new comprehensive work rules. Ultimately, Davidoff's demands were assembled in a huge document 50 legal size pages long.

Section 26 of the Davidoff document was entitled, "Severance Pay," and stated:

> The parties agree to establish a severance bonus plan, which will provide a schedule of benefits of no less than one (1) week's pay for each year of employment. Said plan shall be based upon length of employment and will further provide for vesting of the employee's benefits in the event of termination for any reason provided said employee meets the eligibility requirements of the plan.
>
> The Employer will contribute to the severance bonus plan, which is to be administered jointly by the parties, the sum of twenty-five (25¢) cents per hour for each employee covered by this agreement.[33]

---

[32] U.S. General Accounting Office document of April 13, 1973 entitled, "Review of Plans, Programs and Financial Transactions Relating to the Severance Benefit Trust Fund of Local 295." (See Appendix III.)

[33] Local 295 wage and benefit demands, 1970.

At 25 cents an hour, computing on the basis of a 40-hour week, the employers were being asked to contribute a minimum of $10 a week. However, Davidoff altered that initial proposal considerably. He won from the trucking firms a promise to contribute $15 a week for each driver the first year of the contract; $30 a week for each driver the second year; and $40 a week the third year.

LOUIS OSTRER PROMOTES SEVERANCE PAY PLAN

While Harry Davidoff was planning his new contract demands, Louis Ostrer was in California seeking backing for his severance pay-life insurance plan from insurance executives.

Ostrer went to the office of Otto Forst at 9777 Wilshire Boulevard in Beverly Hills March 25, 1970. Forst was chairman of the board of the First Executive Corporation, a holding company for several insurance companies, including Executive Life of New York.

Basically, the Ostrer idea called for severance pay trust funds to be formed exclusively from the contributions of management. About half the money in the fund would then be used to buy life insurance for the union members.

In a Subcommittee affidavit, sworn to May 31, 1972 in Baden Baden, Federal Republic of Germany,[34] Otto Forst recalled the Beverly Hills meeting and Ostrer's enthusiasm for the severance pay-life insurance plan, a concept, Ostrer insisted, that would "revolutionize benefit practices under collective bargaining."

Forst, who was in business to sell insurance, was impressed. Ostrer spoke "in terms of hundreds of millions of dollars of face value insurance" and was so convincing that Forst agreed to have his Executive Life Insurance Company of New York provide the coverage for the kind of severance pay-insurance program Ostrer was promoting.

Some seven months after the Beverly Hills meeting—in the fall of 1970—Ostrer had apparently persuaded Teamsters Local 295 to adopt his severance pay-life insurance concept. Forst said that he met with Ostrer on two visits to New York—on October 21 and 22 and November 17 and 18—and that Ostrer was now saying Local 295 was ready to start buying coverage.

Forst added that Ostrer, in both October and November, spoke precisely of what the terms of the employers' contributions would be—$15 per worker per week for the first year; $30 per week for the second year and $40 per week for the third year. These were the exact contributions the employers agreed to in December of 1970.

Forst said that Ostrer explained to him that slightly less than half of the employers' contributions would be available for the purchase of life insurance. On the basis of this assurance, Forst promised to advance Ostrer the first year's commissions as soon as the case was written.

FUND GROWS, ITS PURPOSE EXPANDS

Things were moving quickly. Section 26, the "Severance Pay" provision, of the original Davidoff proposal grew from 25 cents an hour per employee to $15 per week per worker, and then to $30 and $40 a week in the second and third years, respectively. The purpose of the fund was also expanded and a life insurance feature was added

---

[34] Affidavit of Otto Forst, May 31, 1972. (See Appendix IV.)

that provided for 49.9 percent of the fund's money to be spent on insurance coverage for workers.

Soon Louis Ostrer was explaining to union and management representatives not only how the Ostrer concept of severance pay worked—but also how his concept of life insurance would go into effect. The truck drivers of Local 295 would have a severance pay plan that would return to them should they quit or retire or be laid off all the money contributed on each man's behalf by management. Next, at no extra cost, they would also have life insurance protection.[35]

SEVERANCE FUND GETS OFF TO ROCKY START

Payments of $15 per man per week were due and payable starting December 1, 1970. The various collective bargaining agreements were signed between the trucking firms and Local 295 from December 6 to December 16. Money for the severance fund was pouring in at the rate of $18,000 to $20,000 a week.

Harry Davidoff appointed five union members to the board of trustees of the new trust fund. A meeting was called. Representatives from several of the trucking firms attended. They designated five trustees to represent management on the board.

At the first few meetings, minutes were not adequately kept. So it is uncertain as to all that actually transpired. But the minutes do show there was considerable confusion as to how to proceed.[36] Strong disagreements broke out. Two trustees of management—one from Emery Air Freight—resigned.

Through this rocky period, Louis Ostrer was a source of strength as he attended most of the meetings of the trustees and was helpful and ready to provide guidance. His advice was particularly well received as none of the trustees knew very much about managing a severance fund or setting up a life insurance program.

Ostrer was already a familiar figure to the Teamsters and to management. He had spoken to both groups previously about the severance fund. Now, the trustees, faced with the troublesome burden of having an on-going fund of their own, turned to Louis Ostrer to manage it, and help them make vital decisions.

The trustees of the fund seemed relieved to have Ostrer assume the responsibility of drawing up trust indentures, modifying the collective bargaining agreement when needed, seeking an insurance agency, using part of the severance fund money to buy life insurance, obtaining actuarial studies and, in general, just getting things moving.

Emery Air Freight, the largest by far of all the trucking firms, did have misgivings about the fund and Louis Ostrer. In fact, after their representative on the board of trustees resigned, Emery officials made a brief but futile effort to set up a separate trust for their own employees.

---

[35] Rules and Regulations of Local 295 Severance Trust Fund; Agreement and Declaration of Trust Establishing the Local 295 Severance Trust Fund.

[36] Minutes of meeting of trustees of severance trust fund, Local 295, March 17 and 31, 1971, Subcommittee memorandum of March 1, 1972 entitled, "Local 295 Severance Trust Fund, review of minutes of trustees meetings for October and November of 1971," from Jack Balaban to John P. Constandy; Subcommittee memorandum of July 5, 1972 entitled, "Review of minutes of trustees meetings, January, February and April 1972," from Jack Balaban to John P. Constandy; Subcommittee memorandum of November 6, 1972 entitled, "Review of minutes of trustees meeting of September 25, 1972," from Jack Balaban to John P. Constandy.

The union objected, saying it was bad precedent, might require several other separate trusts and would be foolish for the smaller companies to have individual funds. Emery gave up the effort.

Nonetheless, Emery Air Freight refused to participate in management's membership on the board of trustees and began making its contributions to the trust fund "under protest."

DETAILS OF THE SEVERANCE PLAN-INSURANCE BENEFIT

Examination of the severance fund's procedures showed that workers enrolled at the start of the fund qualified immediately for the full payment of whatever money had been contributed on their behalf by management. Noninception members qualified gradually over a five-year period.[37]

Nearly half—49.98 percent—of the employer contributions was used to buy life insurance for the members of Local 295.

The life insurance purchased for each member was ordinary level-premium whole life insurance. It was provided in separate individual policies—not group.[38] The individual policy feature of the insurance program was to be one of the most controversial aspects of the plan. Considerable criticism was lodged against Ostrer, the architect of the system, for not having selected the more conventional group plan coverage. This criticism is noted in some detail later in this staff study.

Commissions for the agent were quite high. The total agent commissions were set at 50 percent for the first year; 25 percent for the second, third and fourth years, respectively; and 15 percent each for the fifth through 10th years.[39] Critics of the Ostrer plan also raised questions about the propriety of the commission rates as will be noted later in this study.

Insurance coverage for workers was determined by a formula. The first step was to multiply the employer's weekly contribution by 50. Next, that figure was multiplied by the number of years between the insured members' age and age 65.

For example, if a 40 year old man died in the second year of the plan when employer contributions were $30 per week, the dead man's policy was worth $37,500. By the same formula and with the same circumstances, a 25 year old man would have $60,000 coverage while a 56 year old man would have $15,000 coverage.[40]

Unfortunately, however, the dead man's widow could not collect the full face value of her husband's policy unless she waited 10 years to do it. That was another feature of Louis Ostrer's concept of life insurance which was a target of criticism.

This Ostrer innovation began on the premise that the beneficiary of all the insurance policies was not the families of the deceased but the severance fund itself.

Accordingly, after the death of the insured, the dead man's own named beneficiary did not receive cash from the trust fund according to the face value of the policy.

---

[37] U.S. General Accounting Office study of Local 295 severance trust fund, dated May 21, 1973. (See Appendix V.)

[38] *Ibid.*

[39] Report on Local 295 severance trust fund, dated June 25, 1971, prepared for the Senate Permanent Subcommittee on Investigations by Lawrence M. Hyman, Supervising Examiner, New York State Insurance Department; George Perla; Senior Examiner, New York State Insurance Department; and Herbert L. Feay, Assistant Director and Actuary, U.S. General Accounting Office. (See Appendix VI.)

[40] *Ibid.*

Instead, the named beneficiary had a choice of receiving either a lump sum payment with a considerable discount; or receiving the full face value of the policy in equal increments once a year for 10 years.

The discount reduced the face amounts of insurance payable by 26.4 percent if death occurred on or before age 55 and by 15.8 percent if death occurred after age 55.[41]

For example, Subcommittee investigators learned of the widow of one deceased union member who had the option of receiving the $12,000 face value of the policy in yearly payments over a 10-year period or $8,800 in an immediate lump sum. She took the lump sum—minus $3,200 of what she should have been entitled to. The money discounted from the lump sum remained in the trust fund.

In addition, Section 3.17 of the rules and regulations of the fund stipulated that money was to be paid to a dead man's beneficiaries only after the cost of his insurance premium and his allocated share of administrative fees were deducted.[42]

---

[41] *Ibid.*
[42] *Ibid.*

V. Commissions on the Insurance Policies

WITHOUT AGENT'S LICENSE, OSTRER RELIED ON OTHERS

Because his agent's license had been revoked by the New York State Insurance Department, Louis Ostrer could not actually write insurance policies as an agent in New York.[43] However, Ostrer did design insurance programs. He was associated with Fringe Programs, Inc., a New York City enterprise owned by Ostrer's sister, Mrs. Dina Gelman. Fringe Programs managed the severance trust fund under contract to Local 295.

In addition, Ostrer had a special relationship with three agents who were licensed by the State of New York and who wrote insurance for him in the Local 295 severance fund program. These agents were Mrs. Gelman, Cy Reeves Snyder and Seymour Greenfield.

The Subcommittee staff inquiry showed that when Mrs. Gelman, Snyder and Greenfield were paid commissions in connection with the Local 295 life insurance coverage, they were, in fact, serving as fronts for Louis Ostrer.

TWO INSURANCE COMPANIES PROVIDE COVERAGE

In his affidavit,[44] Otto Forst said that in mid-1971 he and his associates at the Executive Life Insurance Company of New York decided that the Local 295 policies were not profitable enough. Death claims and commissions were running too high.

Forst said he informed Ostrer that either he reduce the face value of the policies or cut the agent's commission. If he did neither, Executive Life did not wish to continue the agreement. Ostrer did neither. Forst said Executive Life did not renew and that the Trans World Life Insurance Company of New York took over the account.

FRINGE PROGRAMS, INC.

Fringe Programs, Inc., administered the severance pay plan from December 1, 1970 through November 30, 1972 at a cost of $148,198.20.

In addition, Fringe was paid a subsequent amount of $10,718.92 on January 16, 1973 for services rendered in December of 1972 and January of 1973.[45]

Fringe Programs, Inc., was located in a small office building in mid-town Manhattan at 377 Fifth Avenue across the street from the Empire State Building. Fringe Programs had also used office space at 384 Fifth Avenue.

---

[43] Findings of Fact, Conclusions and Decision by the New York State Insurance Department, dated October 4, 1967, requiring Louis Ostrer, Samuel Schienhaus and Seymour Greenfield; press release, dated December 22, 1967, issued by New York State Insurance Department concerning Louis Ostrer. (See Appendix VII.)

[44] Otto Forst affidavit.

[45] U.S. General Accounting Office study of Local 295 severance fund; Report on Local 295 severance fund by Lawrence Hyman, George Perla and Herbert L. Feay; New York State Insurance Department Report of Examination of Local 295 Severance Trust Fund as of June 30, 1971, No. 0-232-0295. (See Appendices V, VI, and VIII.)

The president of Fringe Programs was Julius November, a New York attorney with offices in Manhattan. The personal lawyer for Louis Ostrer, November told Subcommittee investigators that he knew almost nothing about the day-to-day operations of Fringe Programs.

The sole stockholder in Fringe was Dina Gelman, Ostrer's sister. Mrs. Gelman, besides being the only stockholder, was also office manager. Her salary was $18,000 to $25,000.

Subcommittee investigators found Fringe Programs to be an efficiently run administrative organization routinely involved in keeping track of the individual payments made on behalf of each of the members of Local 295. Fringe also provided a similar service for about 12 other union severance funds.

Tabulating equipment was used extensively. Computer time was rented from an outside company. Desk space was crowded.

Mrs. Gelman, the supposed owner of the enterprise, shared a small partitioned office with several secretaries and clerks and filing cabinets.

By contrast, Mrs. Gelman's brother, Louis Ostrer, who was not on the payroll but was listed as a "consultant," enjoyed a well appointed, wood panelled suite, conference room and library. Appearances suggested that Ostrer was in charge and that Mrs. Gelman worked for him.

EXECUTIVE LIFE INSURANCE PAYS ADVANCE COMMISSIONS

In his affidavit,[46] Otto Forst, president of the holding company that owned Executive Life, said he had expected the first year's premiums to be received in one lump sum. But he learned the premiums were to be paid in monthly installments.

At Ostrer's recommendation, Forst agreed to lend—or advance—the agent an amount equal to the first year's commissions, using as collateral a series of promissory notes.

Forst said Ostrer assured him that the trustees of the severance fund would accept Ostrer's advice as to the selection of an insurance company.

Forst was certain that Ostrer could prevail as to which company the trustees would select and that Ostrer would have his way on all other details of the insurance coverage. Forst put it this way:

> I would like to make it clear that as far as this company was concerned, Louis Ostrer controlled the placing of the severance fund business with us. He had designed the plan and the trustees would rely upon him for advice as to which insurance company should be selected and it was my policy to take those steps which he proposed in order to accomplish the writing of the case.

Forst said the Local 295 insurance policies were written through Ostrer's associate, Cy Reeves Snyder. Then, Forst said, a change was made as Dina Gelman, Ostrer's sister, took over the account and all of the promissory notes, guarantees, commission agreements and other papers connected with the plan were transferred to her in care of her Dina Gelman Agency. She was now the writing agent.

INTERVIEW WITH CY REEVES SNYDER

Cy Reeves Snyder, a retired 63 year old comedian and dancer, was interviewed by Subcommittee Investigators November 23, 1971 and

---

[46] Forst affidavit.

February 22, 1972 in his apartment, No. 312, at 1652 N.E. 191st Street, North Miami Beach, Florida.[47]

Snyder said that he had gone in insurance sales at Louis Ostrer's suggestion. He obtained licenses in New York, New Jersey, Pennsylvania, California and Florida.

As for his association with the severance trust fund of Local 295, Snyder said he had allowed Dina Gelman and Fringe Programs, Inc., to use his name in that he, Snyder, was licensed in New York.

Snyder insisted, however, that any commissions paid in connection with the Local 295 insurance policies were not to him. He said he had received $3,000 from Fringe Programs but that this money was payment for his unsuccessful efforts to sell the Ostrer severance fund concept to some union locals in Florida.

Subcommittee investigators established that from December 17, 1970 to January 25, 1971 six commission checks totalling $335,000 from Executive Life payable to Cy Reeves Snyder were endorsed by a person who signed the name of Cy Reeves Snyder.[48]

Subcommittee investigators sought to discuss this apparent discrepancy with Snyder. But Snyder did not wish to discuss it and even refused to examine photostatic copies of the checks and the endorsements on the back sides.

Snyder would say only that it was his understanding that any income derived from the Local 295 insurance commissions went to Dina Gelman or Fringe Programs, Inc., or Seymour Greenfield.

THE LOANS ARE GUARANTEED

On December 10, 1970, Harry O. Miller, general counsel for the Executive Life Insurance Company, wrote a memorandum to Otto Forst on the subject of the agent's commissions for the policies of the Local 295 severance fund.[49]

Miller informed Forst that the advance on the commissions—that is, Miller said, "the loan to be made to Cy Reeves Snyder"—was to be paid back over four years and was "to be guaranteed by Viscount Agency, Inc., Fringe Programs, Inc., Louis Ostrer and Seymour Greenfield."

Greenfield was a close business associate of Ostrer. Viscount Agency, Inc., was an enterprise headed by Greenfield.

FORST, LOCHNER SIGN CHECKS

The Executive Life Insurance Company of New York had offices at 540 Madison Avenue in New York City. The president of the firm was Norbert F. Lochner.

---

[47] Subcommittee memorandum of November 23, 1971 entitled, "Interview of Cy Reeves Snyder re Louis Ostrer and Severance Benefit Fund of Local 295, IBT." from Stephen B. King and William F. Gibney to John P. Constandy, and memorandum of February 22, 1972 from King and Robert Dunne to Constandy. (See Appendix IX.)

[48] Check No. 6592, dated December 17, 1970, drawn on the account of the Executive Life Insurance Company of New York, payable to Cy Reeves Snyder, in the amount of $25,000; check No. 6593, dated December 17, 1970, drawn on the account of Executive Life, payable to Cy Reeves Snyder, in the amount of $50,000; check No. 6651, dated December 21, 1970, drawn on the account of Executive Life, payable to Cy Reeves Snyder, in the amount of $25,000; check No. 6945, dated January 25, 1971, drawn on the account of Executive Life, payable to Cy R. Snyder Agency, Inc., in the amount of $35,000; check No. 6944 dated January 25, 1971, drawn on the account of Executive Life, payable to Cy R. Snyder, in the amount of $50,000; and check No. 6946, dated January 28, 1971, drawn on the account of Executive Life, payable to Cy R. Snyder Agency in the amount of $150,000. (See Appendix X.)

[49] Memorandum, dated December 10, 1970, from Harry O. Miller to Otto Forst. (See Appendix XI.)

Lochner told Subcommittee investigators in a June 12, 1972 affidavit [50] that he was informed by Otto Forst that Executive Life would be handling coverage for the members of Local 295 under the new severance pay-life insurance program.

Lochner said that Forst informed him that advance commissions were to be paid on the union policies. Lochner said that he and Forst co-signed checks totalling $431,516 to Cy Reeves Snyder and Dina Gelman, the agents for the Local 295 policies.

Lochner said that from December 17, 1970 to January 25, 1971, six checks totalling $335,000 were paid to Cy Reeves Snyder or the Cy R. Snyder Agency.

Lochner said that from March 4, 1971, to April 12, 1971, four checks with a combined value of $96,516.43 were paid as commissions to Dina Gelman.

The Investigations Subcommittee obtained photostatic copies of these checks.[51] The Subcommittee also obtained copies of three additional checks from Executive Life to Dina Gelman. These checks, for commission advances on the Local 295 policies, totalled $51,671 and were issued on February 22, 1971, and June 22, 1971.[52]

Russell J. Lasher, the financial vice president and treasurer of First Executive Corporation, the holding company for Executive Life, gave the Subcommittee an affidavit August 30, 1972 in which he swore to the authenticity of all 13 checks and to the fact that all of them were issued in connection with the insurance coverage given by Executive Life to the members of Local 295.[53]

TRANS WORLD TAKES OVER THE 295 ACCOUNT

Otto Forst, speaking for Executive Life, said the company dropped its policies with the Local 295 severance fund because the death claims were too high and the agent's commissions were too expensive.[54]

So, for the second tier of insurance for the Teamsters local, Louis Ostrer turned to the Trans World Life Insurance Company of New York.

Again, advance commissions were paid out. And, again, commission rates were quite high. Trans World Life Insurance policies provided for an aggregated first year commission of 90 percent.[55] The first agent for Trans World was Seymour Greenfield of 32–16 Healey Avenue, Far Rockaway, New York. Greenfield, a close associate of Ostrer, was president of the Viscount Agency, Inc., and secretary of the Modern Agency, Inc., both of which sold insurance.

---

[50] Norbert F. Lochner affidavit, June 12, 1972. (See Appendix XII.)

[51] Check No. 610, dated March 4, 1971, drawn on the account of Executive Life Insurance Company of New York, payable to Dina Gelman, in the amount of $2,232.47; Check No. 1063, dated April 5, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $22,129.87; Check No. 1148, dated April 9, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $22,154.09; and Check No. 1155, dated April 12, 1971, drawn on the account of Executive Life, payable to Dina Gelman, in the amount of $50,000. (See Appendix XIII.)

[52] Check No. 443, dated February 22, 1971, drawn on the account of Executive Life Insurance Company of New York, payable to Dina Gelman, in the amount of $25,000; Check No. 1466, dated May 14, 1971, drawn on the account of Executive Life, payable ta Dina Gelman, in the amount of $5,671.88: and cashier's check No. 2610093, payable to Dina Gelman pursuant to instructions of Executive Life, in the amount of $20,000. (See Appendix XIV.)

[53] Affidavit of Russell J. Lasher, August 30, 1972. (See Appendix XV.)

[54] Forst affidavit.

[55] New York State Insurance Department Report of Examination of the Local 295 Severance Trust Fund as of June 30, 1971, No. 0–232–0295. (See Appendix VIII.)

TRANS WORLD PAYS COMMISSION ADVANCES

Joseph J. Warren was the president of the Trans World Life Insurance Company of New York. In a June 19, 1972 Subcommittee affidavit, Warren said he wrote checks to advance—or loan—money equal to the size of the commissions for the agents on the Local 295 life insurance policies.[56]

From September 22, 1971 to November 30, 1971, Warren wrote seven checks totalling $140,000 payable to the Viscount Agency, Inc.[57]

Warren wrote six more checks, totalling $320,000, from December 1, 1971 to January 10, 1972 payable to the Dina Gelman Agency.[58] The total commissions on the second tier of insurance, then, came to $460,000. The Subcommittee obtained photostatic copies of these checks.

HENRY BROWN CASHES CHECKS FOR OSTRER

Henry Brown, a New York City broker, had the financial resources to cash large checks for Louis Ostrer and for persons who were associated with Ostrer. Brown described these transactions in four affidavits he gave the Subcommittee December 9, 1971, June 16, 1972, July 28, 1972 and September 8, 1972.[59]

Brown said he had known Ostrer for 15 years, trusted him and had cashed checks worth $1 million for him since 1968. Brown said Ostrer owed him $260,000 but he was confident he would be paid back.

Until Ostrer "got in trouble" with Canada Life Assurance Company, Brown said, Ostrer was "an outstanding insurance salesman." But when he lost his license, Ostrer became "associated with" or employed Dina Gelman, Seymour Greenfield, Cy Reeves Snyder and William Kilroy and such businesses as Fringe Programs, Viscount Agency, Modern Agency, Sutter Agency, Cy Reeves Snyder Agency and Dina Gelman Agency.

Brown said:

> Because I keep no records, I cannot recall the details of specific transactions I have had with Mr. Ostrer. However, in general, Mr. Ostrer or Mr. Seymour Greenfield would contact me concerning the cashing of a check they had in their possession or the advancing of funds on a check which they expected to receive in the near future. I would cash the check in question or advance the money on the expected check, giving the money to Mr. Ostrer or Mr. Greenfield or one of their associates—either a Mr. William Kilroy, Mr. William Felner or Mr.

---

[56] Affidavit of Joseph J. Warren, June 19, 1972 (See Appendix XVI.)

[57] Check No. 20522, dated September 22, 1971, drawn on the account of the Trans World Life Insurance Company, payable to Viscount Agency, Inc., in the amount of $25,000; Check No. 20523, dated September 22, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $25,000; Check No. 20919, dated October 8, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $15,000; Check No. 20920, dated October 8, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $15,000; Check No. 21145 dated October 18, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $20,000; Check No. 22152, dated November 29, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $10,000; and Check No. 22169, dated November 30, 1971, drawn on the account of Trans World Life, payable to Viscount Agency, in the amount of $30,000. (See Appendix XVII.)

[58] Check No. 22191, dated December 1, 1971, drawn on the account of Trans World Life Insurance Company payable to Dina Gelman Agency, in the amount of $100,000; Check No. 22253, dated December 3, 1971, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $60,000; Check No. 22709, dated December 17, 1971, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $40,000; Check No. 22969, dated January 4, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $30,000; Check No. 23072, dated January 6, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $70,000; and Check No. 23144, dated January 10, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $20,000. (See Appendix XVIII.)

[59] Separate affidavits of Henry Brown, dated December 9, 1971; June 16, 1972; July 28, 1972; and September 8, 1972. (See Appendix XIX.)

Sonny Ratoff, who is my nephew. However, I would only cash checks or advance money at either Mr. Ostrer's or Mr. Greenfield's direction. For these services I would charge only a nominal fee—such as $50 or $100 depending upon the amount of the check.[60]

While he kept no records and could not recall every check he had cashed for Ostrer, Brown did remember circumstances surrounding some of the checks when Subcommittee investigators showed him photostatic copies.

For example, Brown remembered cashing a January 25, 1971 check from Executive Life Insurance Company payable to Cy R. Snyder for $50,000. But, Brown said, it wasn't Cy R. Snyder who cashed it. "I cashed this check for either Mr. Ostrer or Mr. Greenfield and deposited the check in my account," Brown said, adding:

I did not give the cash to Mr. Cy Reeves Snyder, the payee of the check. From previous conversation I had with Mr. Snyder, however, I know he approved of the transactions. In fact, he told me that Messrs. Ostrer or Greenfield had a power of attorney to use his signature.[61]

Another January 25, 1971 Executive Life check payable to Snyder—this one for $35,000—was cashed by Brown. He said he remembered giving the money to Ostrer or Greenfield or one of their associates, and, again, Snyder approved of the transaction.[62]

Brown said one check—a $25,000 cashier's check drawn January 27, 1971 by the Kings Lafayette Bank—was payable to Henry Brown. Brown explained:

Mr. Ostrer or Mr. Greenfield contacted me concerning the cashing of this check. Mr. Michael McEnroe signed this check on behalf of the Kings Lafayette Bank. At Ostrer's or Greenfield's direction, I cashed the check, giving the money to them or one of their associates.[63]

THE KINGS LAFAYETTE BANK CHECK IS EXPLAINED

The Kings Lafayette Bank, 200 Montague Street, Brooklyn, New York, was the site of a meeting December 30, 1970. The subject of the meeting was the severance fund-life insurance program of Local 295. In attendance were Louis Ostrer, Seymour Greenfield and several bank officials including Milton Vanderveer, the chairman of the board of the bank, and Tum Sudin, Richard Arkwright and Michael McEnroe, all vice presidents.

McEnroe discussed the meeting—and subsequent events related to it—in a July 14, 1972 Subcommittee affidavit.[64]

He recalled that Ostrer described the severance trust fund to the bank officers. Ostrer said certain trust fund deposits would be made in the bank as part of its investments portfolio.

"It was apparent from the beginning that Ostrer was in charge," McEnroe added, concluding his recollection of the meeting.

Shortly thereafter—on January 6, 1971—McEnroe said, an account for the Modern Agency, Inc., was opened and Seymour Greenfield, secretary of the firm, was authorized to be its sole signator.[65] On January 27, 1971, Greenfield opened a personal account, again with himself the sole signator.[66]

---

[60] Henry Brown affidavit, June 16, 1972.
[61] *Ibid.*
[62] *Ibid.*
[63] Henry Brown affidavit, September 8, 1972.
[64] Affidavit of Michael McEnroe, July 14, 1972. (See Appendix XX.)
[65] Statement of Kings Lafayette Bank, New York, in which Seymour Greenfield was certified as secretary of the Modern Agency, Inc., and its sole signator. (See Appendix XXI.)
[66] Statement of Kings Lafayette Bank in which Seymour Greenfield of Viscount Agency opened a personal checking account. (See Appendix XXII.)

Greenfield took part in another transaction at the bank January 27. He and Louis Ostrer and a third man McEnroe did not know asked him to cash a $150,000 check from the Executive Life Insurance Company. The check was payable to the Cy R. Snyder Agency and had already been endorsed, McEnroe said. Greenfield then countersigned for it for the Modern Agency, Inc., McEnroe said.[67]

McEnroe said the bank didn't have sufficient cash on hand so he gave them what he could—$60,000 in bills, some of them as large as $100 denominations. McEnroe said Ostrer and Greenfield "promptly stuffed [the cash] into their pockets."

Next, McEnroe said, Ostrer asked for three cashier's checks for $25,000 each to be drawn, one made out to Greenfield, one to Dina Gelman, the third to Henry Brown.[68] The remaining $15,000 was deposited in the Modern Agency's account, McEnroe said.

Thus, Michael McEnroe explained how it was that Louis Ostrer got Henry Brown to cash a $25,000 check payable to Henry Brown.

Sometime after the January 27 encounter McEnroe read a magazine article about cargo thefts at the John F. Kennedy International Airport. The article portrayed Local 295, Louis Ostrer and Anthony (Hickey) DiLorenzo in a not very favorable light.

McEnroe said he brought the article to the attention of the bank president, John DePalma, who ordered that Greenfield's Modern Agency account and his personal account be closed out.[69]

On February 22, McEnroe told Greenfield that his accounts were to be closed. "Greenfield did not object," McEnroe said, "nor did he seem too upset . . ."

THIRD YEAR ADVANCES ARE RETURNED

The Trans World Life Insurance Company paid advance commissions of $75,000 to Mrs. Gelman for the start of the third year of insurance under the Local 295 plan. Payment was made by a $50,000 check January 14, 1972 and a $25,000 check January 27, 1972.[70]

On April 24, 1972, Joseph J. Warren, president of Trans World, asked Mrs. Gelman to return the money because the severance fund trustees had not yet ratified the additional coverage.[71] Mrs. Gelman returned the money.[72]

---

[67] Check No. 6946, dated January 25, 1971, drawn on the account of the Executive Life Insurance Company of New York, payable to Cy R. Snyder Agency, in the amount of $150,000. (See Appendix XXIII.)

[68] Cashier's check No. 103-001916, dated January 27, 1971, drawn by Michael McEnroe, payable to S. Greenfield, in the amount of $25,000; cashier's check No. 103-001917, dated January 27, 1971, drawn by Michael McEnroe, payable to D. Gelman, in the amount of $25,000; and Check No. 103-001918, dated January 27, 1971, drawn by Michael McEnroe, payable to H. Brown. (See Appendix XXIV.)

[69] Separate Kings Lafayette Bank statements closing out the account of the Modern Agency, Inc., care of Seymour Greenfield; and the personal account of Seymour Greenfield, both closings dated February 22, 1971. (See Appendix XXV.)

[70] Check No. 23345, dated January 14, 1972, drawn on the account of Trans World Life Insurance Company, payable to Dina Gelman Agency, in the amount of $50,000; and Check No. 23709, dated January 27, 1972, drawn on the account of Trans World Life, payable to Dina Gelman Agency, in the amount of $25,000. (See Appendix XXVI.)

[71] Letter of April 24, 1972 from Joseph J. Warren to Dina Gelman. (See Appendix XXVII.)

[72] Check No. 124, dated April 26, 1972, drawn on the account of Dina Gelman Agency, payable to Trans World Life, in the amount of $25,000; and Check No. 125, dated April 26, 1972, drawn on the account of Dina Gelman, payable to Trans World Life, in the amount of $50,000. (See Appendix XXVIII.)

VI. Evaluations of the Severance Pay-Insurance Plan

SUBCOMMITTEE ASKS ACTUARIES TO EXAMINE FUND

In May of 1971, at the request of the Senate Permanent Subcommittee on Investigations, three insurance experts examined the procedures and policies of the Local 295 severance trust fund and its life insurance benefit.

The insurance experts were Lawrence M. Hyman, supervising examiner of the State of New York Insurance Department; George Perla, senior examiner of the Department; and Herbert L. Feay, Assistant Director of the United States General Accounting Office.

On June 30, 1971, the conclusions of these men were given to the Investigations Subcommittee.[73] The three insurance experts were critical of the life insurance features of the severance fund.

They said the insurance coverage aspects of the fund were incomplete in describing procedures and benefits.[74]

They said the agent writing the coverage would benefit excessively from the high commission rates of the fund. They said that one of the agent's commissions—the persistency bonus—was probably illegal in the State of New York.[75]

The three insurance experts estimated that agent commissions would total $1 million in the first three years of the plan. They contrasted the million dollar commission fee of the Ostrer system with the $75,250 commissions due on a comparable group plan set up in accordance with the Code of Ethical Practices of the National Association of Insurance Commissioners.[76]

The insurance experts were also critical of the insurance for being designed "without regard to the individual needs of each member." People's insurance requirements change as their lives change, they said, and their insurance coverage should be responsive to new situations. But instead of responding to worker's needs, the insurance experts said, the Ostrer policy was structured according to the "apparent desire to pay the maximum amount possible as life insurance premiums on which the agent will collect commissions." [77]

NEW YORK INSURANCE DEPARTMENT EXAMINES FUND

On September 8, 1972, the State of New York Insurance Department completed a study entitled "Report on Examination of the Local 295 Severance Trust Fund." The report was forwarded to the Subcommittee on October 18, 1972.[78]

---

[73] Letter of June 30, 1971 from Lawrence M. Hyman and George Perla to Robert E. Dunne, transmitting the report of the actuaries on the Local 295 Severance Trust Fund to the Senate Permanent Subcommittee on Investigations. (See Footnote 39.)

[74] *Ibid.*

[75] *Ibid.*

[76] *Ibid.*

[77] *Ibid.*

[78] New York State Insurance Department Report on Local 295 Severance Trust Fund. (See footnote 55.)

71-542—76——3

Prepared by Department examiner Murray Zaroff, the report was critical of the severance trust fund, particularly its life insurance provisions.

Excessive commissions to the agent were sharply questioned as the report asserted:

> The scale of payments to the insurance agent is unconscionably high and in the gross contravention of the Code of Ethical Practices.[79]

The report added:

> If commission has been made payable not at the unbelievably high rates currently in effect but at the range of rates contemplated in the Code of Ethical Practices, the savings in commissions would have been of great financial benefit to the trust fund. Such savings could have been passed on [to] the fund in the form of lower premiums or the contracts could have been rewritten on a participating basis so the fund could receive the savings as dividends.[80]

New York's Insurance Department charged that Louis Ostrer had deliberately misled the severance trust fund trustees and termed "seriously questionable" the use of ordinary whole life insurance instead of implementing a group plan.[81]

Fringe Programs, Inc., the administrator of the severance fund, came under fire for the excessively high fees it charged. The New York State Insurance Department noted that Fringe was paid first year administrator's fees of $86,877. This figure was contrasted with an avowal made by Louis Ostrer January 21, 1971 in a meeting of the trustees that annual administrator's fees would be 94 cents per member per month—or $15,000.[82]

It was further asserted that, as of July 1, 1972, overall administrative charges—$124,077—were four and one-half times higher than those of the average fund of similar size.[83]

The Insurance Department report cited another item in the overall cost of managing the fund—the legal fees—which seemed to be too high. The severance fund had paid $18,000 to two lawyers—Haskell Wolf and Herbert Simon—and the report observed that the "fund's high administrative costs" could be reduced by $9,000 by retaining only one attorney, rather than two.[84]

Finally, the Insurance Department referred to its own previous announcement—of December 22, 1967—when it revoked Louis Ostrer's license as an insurance agent. The Department asserted that Ostrer had, in fact, solicited the insurance arrangement with Local 295 at a time when he was not licensed as an agent by the State of New York.[85]

THE GAO STUDIES FUND

The Senate Permanent Subcommittee on Investigations on December 28, 1971 asked the United States General Accounting Office (GAO) to examine the severance pay-life insurance plan of Local 295. The GAO submitted its report to the Subcommittee May 21, 1973.[86]

Like the New York State Insurance Department report, the GAO study was critical of the high commission rates and the decision to have individual policies rather than a comprehensive group plan.

---

[79] *Ibid.*
[80] *Ibid.*
[81] *Ibid.*
[82] *Ibid.*
[83] *Ibid.*
[84] *Ibid.*
[85] *Ibid.*
[86] GAO study of Local 295 Severance Trust Fund. (See Footnote 37.)

The GAO said the use of individual policies—rather than the less expensive group plan—cost the fund an additional $790,000 in commissions over what a group plan commission fee would have been.

The GAO analyzed the fund's finances from December 1, 1970 through November 30, 1972 and found that the fund had receipts totalling $3,304,336 for this two-year period. During the same period, $2,156,171 was spent, resulting in a net cash balance of $1,148,165.

The major source of cash for the fund was employer contributions. They came to $2,966,220. The largest use of this cash was to buy insurance. Premiums cost $1,531,234.

Of the money spent on insurance, $1,014,571 was paid to the Executive Life Insurance Company of New York. The Trans World Life Insurance Company of New York received $516,663.

Of the $1,531,234 of the fund's money that was spent on life insurance about $800,000 was for commissions that were paid to Dina Gelman, Cy Reeves Snyder and Seymour Greenfield or their respective businesses, the Dina Gelman Agency, the Cy R. Snyder Agency, the Modern Agency and the Viscount Agency.

GAO estimated that the commission costs would have been $10,000—not $800,000—if the coverage had been group rather than individual whole life.

The GAO said the life insurance coverage itself was "much more costly" than other insurance programs of similar size. Administrative costs were found to be "considerably greater" than those charged in other benefit plans in New York.[87]

GAO pointed out that Local 295 members already had a life insurance program under their Group Welfare Fund. "It would seem," the GAO reported, "that, if additional insurance coverage were considered desirable, it would have been more logical to provide it through the Group Welfare Fund." [88]

The GAO said that other insurance programs would have given Local 295 members better protection at cheaper costs. In short, the GAO said, "The plan was not formulated or administered in the best interests of the members." [89]

The GAO also studied the issue of funding. Was the severance fund properly funded? GAO's answer was, no, it was not properly funded. The severance trust, because of its huge life insurance liabilities and excessive administrative costs, never did live up to its first requirement—that is, to have adequate resources to pay back to workers at severance all the employer contributions made on their behalf plus interest earned on the contributions.[90]

The GAO said:

> A test commonly used for determining soundness of an employee benefit plan (such as the Local 295 plan) is simply to determine whether the plan will be able to pay benefits provided under its terms.[91]

But the Local 295 severance plan could not pass this test, GAO found, concluding:

> It [the fund] could not have been expected to be able to pay such benefits immediately because its earnings would not have been sufficient to offset expenditures made for insurance premiums, administrative expenses and benefit payments.[92]

---

[87] *Ibid.*
[88] *Ibid.*
[89] *Ibid.*
[90] *Ibid.*
[91] *Ibid.*
[92] *Ibid.*

This last GAO finding—on funding and the financial soundness of the plan—was also noted by Subcommittee investigators as they sought to evaluate the Louis Ostrer concept of severance pay and life insurance.

A CRITIQUE OF THE OSTRER CONCEPT

Subcommittee investigators found incomplete records of what Louis Ostrer actually said as he briefed union officials and management on his severance pay plan and the life insurance coverage.

But available records and interviews conducted with persons who heard Ostrer's briefings indicate that Ostrer gave the impression that the insurance protection would be "free." That is to say, the fund could buy the insurance yet still be able to guarantee the return of every dollar contributed by management on behalf of every member.

This claim by Ostrer was misleading. Initially, the severance fund was not able to guarantee severance payments for all its members—for nearly one-half its revenues were spent on life insurance protection. The GAO estimated that it would be 15 to 20 years before the fund would have been 100 percent funded.

In promoting his concept of severance pay plans, Ostrer was relying on a principle that bankers, money managers and insurance men know very well. That principle has to do with the incremental value of compounded interest on a large fund of money, particularly one—like this severance fund—which has a steady, fixed guaranteed income. In its most approximate terms, a set amount of money will double, even though not added to, in about 10 years at a reasonably obtainable rate of interest.

Compound interest allows insurance companies to collect low monthly premiums during a man's life span and pay out many thousands of dollars upon his death. Beneficiaries, in fact, may receive more than the total amount collected from the deceased but the insurance company will still show a profit.

In insurance, then, as in banking, what makes the venture profitable is the interest and particularly the compounding of interest.

Louis Ostrer knew this principle well. Using even conservative actuarial considerations and cautious interest projections, the cost of the Ostrer insurance program could be paid back to the severance fund in a period of time. Ostrer claimed seven years. GAO said 15 to 20 years.

Ostrer's system counted on money coming from the weekly employer contributions being supplemented by (1) forfeitures from partially vested newer employees who leave before they have the full five years of employment needed to qualify; (2) the interest earned on that half of the severance fund not used to buy life insurance; (3) paying out death claims over a 10-year period or paying the claim in one lump sum minus a substantial discount; and (4) the cash surrender value of the insurance policies as they begin to mature and which are, in the Ostrer plan, the property of the trustees, not the insured truckers.

OSTRER MISLED LOCAL 295 MEMBERS

The life insurance program, purchased at high prices with high commissions and managed with high administrative costs, rendered the severance fund technically bankrupt the day it began. At that moment, the fund's assets were 50 percent of its liabilities.

A severance pay plan, by definition, must at all times be fully funded. Ostrer obscured that fact by encouraging his audiences to confuse severance pay with pension plans. The two are not comparable.

A severance pay plan has no "past service obligation." It is—as asserted in the Local 295 contract and in other similar arrangements—a fund obligated to pay the entire amount contributed by management to each employee upon severance. It is similar to the keeping of a separate bank account for every member.

On the other hand, a pension plan often does not reach full funding for many years because it assumes obligations which extend back in time before its creation and relies on the fact that most participants will not be vested or retire for many years. Therefore, the Ostrer severance system—as portrayed by Louis Ostrer—compared favorably with pension funds; his fund was to be fully paid up in some 10 years.

But severance funds are not pension funds. If, for example, the trustees of a comparable welfare benefit such as health care are to expend $500,000 for medical expenses for the membership for the year, funds available should be approximately $500,000.

What Ostrer promised, in reality, was to achieve a return of the money he planned to lavish on excessively costly life insurance. He was promising to pay back to the truck drivers in 10 years what was theirs from the beginning. Louis Osterer's proud claim that it would be fully funded in a decade had a hollow ring.

LETTERS ARE NOT ANSWERED

It was the Subcommittee's hope that persons involved in the creation and management of the Local 295 severance trust fund would contribute their own views in this staff study. Consequently, the staff asked Louis Ostrer and Harry Davidoff to give final interviews at which time the most serious questions about the fund could be raised and Ostrer and Davidoff would have a chance to give their side of the severance fund story.

Certified letters from Subcommittee Chief Counsel Howard J. Feldman were sent March 30, 1973 requesting these meetings. Neither of the letters was answered.[93]

THE BELMONT STOCK CASE

Louis C. Ostrer and John (Johnny Dio) Dioguardi were engaged in questionable stock transactions at the approximate same time that the Local 295 severance fund-life insurance program was being implemented.

Ostrer and Dioguardi were charged in a 40-count indictment May 27, 1971 in which it was asserted that they had violated federal securities laws and federal mail and wire fraud statutes. Seven other persons were also charged.

On January 26, 1973, a jury found Ostrer guilty on 11 counts and Dioguardi guilty on four counts (361 F. Supp 954). On April 12, 1973, Judge David N. Edelstein of the United States District Court for the Southern District of New York sentenced John Dioguardi to nine

---

[93] Separate letters each dated March 30, 1973 from Howard J. Feldman to Harry Davidoff and Louis Ostrer. (See Appendix XXIX.)

years' imprisonment and a $30,000 fine and Ostrer to three years' imprisonment and a $55,000 fine.

On January 4, 1974, the convictions of Dioguardi and Ostrer were sustained by the United States Court of Appeals, Second Circuit.

Ostrer still remains free pending further appeal of his conviction. Dioguardi is presently incarcerated at the Federal penitentiary at Lewisburg, Pa.

Details of the scheme of Ostrer and Dioguardi in the Belmont stock case are reported in the opinion of the United States Court of Appeals, Second Circuit in *U.S.* v. *Dioguardi* (492 F. 2d (1974)). Evidence in the case revealed a plan to manipulate the price of the stock of the Belmont Franchising Corporation, a substantially worthless over-the-counter security; the book value of the stock was almost negligible. Belmont's assets were essentially paper holdings in other concerns. The stock had been traded for only a short time for at most a few dollars a share.

In January of 1970, Michael Hellerman, who pleaded guilty and testified for the government, began steps to drive up the price of Belmont stock, first to $5 or $6 a share and then to nearly $50 a share. At that time, two alleged stock manipulators, Anthony Soldano and Fred Goodman, together with Hellerman, began to buy virtually all of the 28,720 known publicly tradeable shares of Belmont.

Goodman and Soldano executed their purchases ostensibly through the open market, using brokers who quoted prices for Belmont through the National Quotation Bureau's pink sheets for over-the-counter securities. These purchases created the appearance of an active public market in the stock.

By early March of 1970, Goodman and Soldano allegedly had caused the market price of Belmont as quoted in the pink sheets to reach $15 a share. They did this primarily through directions to their brokers, who traded small quantities of the stock among themselves. In the meantime, Goodman and Soldano had acquired, they believed, control of all the outstanding stock.

At this point Hellerman's role became more important. According to his testimony, he already had an understanding with John Dioguardi that "whatever I did in the future . . . he would have 25 percent." It had also been agreed between Hellerman, on one side, and Goodman and Soldano on the other that once the price of Belmont stock reached $15 Hellerman and his associates would purchase all the stock at the $15 level, with a $5 per share kickback, prior to further manipulation upwards.

In confirming this arrangement with Goodman and Soldano, Hellerman took Soldano to Dioguardi's office "to make sure it was on the record."

According to Hellerman, it was at this time in early March that he brought Ostrer into the scheme, although the two had only known each other a short time. Ostrer agreed to commit himself to buy 14,000 shares of Belmont at $15 a share, for a total of $210,000, with the understanding that he would split any future profits with Hellerman, that Hellerman would guarantee him against loss and that a loan of the purchase money would be arranged so that he would not have to "lay out a quarter" of the $210,000.

Purchase orders in Ostrer's name or in his behalf were to be made through various New York Stock Exchange firms.

Ostrer then placed orders in his own name and in the name of his sister, Mrs. Dina Gelman, for 14,000 shares of Belmont. However, most exchange firms which Ostrer approached refused to accept his orders and he was forced to place relatively large block orders through firms where brokers were already in league with Hellerman.

Meanwhile, Hellerman made arrangements with other persons to purchase the remaining 14,000 shares of Belmont. These persons were able to pay the selling brokers at the $15 a share price. But Ostrer was unable to raise the $210,000 needed to "hold up" his end of the deal.

This development left his brokers unpaid. According to Hellerman, he then obtained a loan for Ostrer through Dioguardi. These funds, totalling $60,000, came from Anthony (Hickey) DiLorenzo, at an interest rate of 1½ percent a week. DiLorenzo also demanded and received $24,000 from Hellerman. In addition Hellerman also advanced Ostrer $52,500 and Ostrer obtained the balance he needed from other sources.

From the end of March through late April of 1970, Hellerman directed purchases and sales of Belmont stock at ever-increasing prices among the individuals and brokers he controlled. He kept Dioguardi, Ostrer and DiLorenzo informed as the price rose. He also arranged for Ostrer to sell off enough stock, through a nominee, to repay the $60,000 loan from DiLorenzo—with a $1,700 profit left over which he split with Ostrer.

By the end of April of 1970, Hellerman had received about $140,000 in kickbacks from Goodman and Soldano. He gave $30,000 to Dioguardi and invested $9,000 more in a business in which Johnny Dio had an interest.

In early May of 1970, the scheme failed. The president of Belmont, through a broker unknown to the manipulators, began to sell heavily his own "investment" stock in the corporation. The market was unable to absorb the sales. Hellerman was unwilling to buy the stock and could not find other purchasers. The market for Belmont collapsed, leaving Ostrer and others with large quantities of unsold stock. Ostrer then tried to hold Hellerman responsible for his losses. Hellerman became worried because Dioguardi took Ostrer's side. Dioguardi arbitrated the dispute to some extent and arranged for partial compensation to Ostrer in the sum of $25,000.

At the trial, Dioguardi called no witnesses. He based his defense primarily on cross-examination going to the lack of credibility of the government's major witnesses, all of whom were accomplices. Ostrer did not testify but he did call two witnesses whose testimony indicated that Ostrer had been a "victim" of Hellerman's manipulations.

VII. Corrective Actions and Related Events

REFORMS ARE IMPLEMENTED IN FUND

Early in 1973 the board of trustees of the Local 295 severance fund took steps to improve the fund's procedures and insurance benefit.

Fringe Programs, Inc., was dropped as administrator of the fund January 16, 1973.[94]

The trustees voted to end the practice of buying individual life insurance policies for the union's members on February 20, 1973. A single group term insurance contract, effective March 1, 1973, was purchased with the Prudential Life Insurance Company.[95]

Accordingly, no agent or broker was involved in the purchase of the group term policy, thereby eliminating the high commissions paid under previous policies.

Under the new group plan, each member, regardless of age, was insured for $30,000.

The trustees also amended the rules and regulations of the severance fund so that payment of the death benefit would be made in lump sum and in full.[96]

JAMES HOFFA'S BOOK

Before his disappearance July 30, 1975, James R. Hoffa, the International Brotherhood of Teamsters former president, wrote a book entitled, *Hoffa: The Real Story*.[97] The book was written in collaboration with Oscar Fraley, a former sportswriter who also wrote *The Untouchables* and other books.

In his book, Hoffa was critical of his successor, Frank Fitzsimmons, and charged that Fitzsimmons, as Teamsters president, allowed organized crime figures to bilk Teamsters of large amounts of money. Hoffa asserted that Fitzsimmons had been guilty of "selling out to mobsters and letting known racketeers into the Teamsters."

Citing the Local 295 severance fund, Hoffa called attention to Louis C. Ostrer's role in an insurance plan that resulted in a $1.1 million "rip-off" of Teamsters members in the local which was "dominated by labor racketeer Harry Davidoff."

READER'S DIGEST ARTICLE

In the August 1974 issue of *Reader's Digest*, longtime labor rackets investigative reporter Lester Velie reported on the severance fund-life insurance benefit scheme which Louis Ostrer devised.[98]

---

[94] Letter of January 16, 1973 from Michael Hunt to Fringe Programs, Inc. (See Appendix XXX.)

[95] Subcommittee memorandum of February 21, 1973 entitled, "Local 295 Severance Trust Fund, Selection of Insurance Carrier by Trustees of Fund," from Maurice Frame to John P. Constandy. (See Appendix XXXI.)

[96] Amendment to Local 295 Severance Trust Fund, effective February 1, 1973. (See Appendix XXXII.)

[97] *Hoffa: The Real Story*, by James R. Hoffa, as told to Oscar Fraley.

[98] "The Mafia Tighten Its Grip on the Teamsters" by Lester Velie, Readers Digest, August 1974, p. 99. (See Appendix XXXIII.)

Velie reported that the scheme first employed at Local 295 in New York was then put into practice in 60 or 70 Teamsters locals in Michigan, California, Nevada, New Jersey, Illinois and Florida.

Velie said Ostrer got the go-ahead to promote his severance fund-insurance plan from Frank Fitzsimmons. Velie said Ostrer hired Fitzsimmons' son, Don Fitzsimmons, as a "consultant and public relations man."

APRIL 18, 1974 CITATION

On April 18, 1974, the New York State Insurance Department issued a citation charging that the Local 295 Severance Trust Fund had been improperly structured and managed. Named in the action were 10 trustees of the fund and Louis C. Ostrer, Dina Gelman, Cy Reeves Snyder, Seymour Greenfield, Viscount Agency, Inc., Fringe Programs, Inc., Executive Life Insurance Company of New York and Trans World Life Insurance Company of New York.[99] The state insurance department citation was authorized by Superintendent of Insurance Benjamin R. Schenck and signed by Sidney B. Glaser, Associate Counsel for Welfare Funds.

Ostrer and the others were charged with having "willfully and/or wrongfully and/or negligently failed to comply with" New York State insurance laws, the result of which was the depletion of the assets of the severance trust fund in the amount of $1,185,728.

Among the charges levelled by the insurance department were assertions that the whole life policies were "excessively costly," that no accredited actuarial consultant was brought in to evaluate the severance trust fund's life insurance benefit, that Louis C. Ostrer lost his license to sell insurance due to questionable practices in the 1960's, that the trustees should have checked into Ostrer's past and learned of his felonious background.

In addition, the insurance department's citation alleged that Cy Reeves Snyder, Dina Gelman, Louis Ostrer, Executive Life, and Trans World Life were involved in transactions they knew to be improper in connection with the purchase of the whole life policies; and that they, in fact, fronted for Ostrer in the solicitation and sale of the severance fund insurance program.

The state insurance department charged that Louis Ostrer and the others named in the citation had, by their actions in the Local 295 Severance Trust Fund, showed a "pattern of gross neglect, incompetence, mismanagement and imprudence" and were guilty of "willful violations of the insurance law."

Louis C. Ostrer and the others were ordered to appear at proceedings of the New York State Insurance Department beginning May 21, 1974.

Nearly two years later—on March 4, 1976—the New York State Insurance Department announced it had recovered $200,000 to be returned to the Local 295 severance trust fund.[100]

Superintendent of Insurance Thomas A. Hartnett said the recovery was made according to an agreement entered into by the department with 10 trustees of the fund and the two insurers, the Executive Life

---

[99] State of New York Insurance Department Citation regarding Local 295 Severance Trust Fund, April 18, 1974. (See Appendix XXXIV.)

[100] News release of the State of New York Insurance Department issued March 4, 1976. (See Appendix XXXV.)

Insurance Company of New York and the Trans World Life Insurance Company of New York.

The trustees and the insurance companies agreed, "without conceding liability," to pay the $200,000 to the insurance department, Superintendent Hartnett said. The department was then to transmit the money to the local's severance fund.

According to Insurance Superintendent Hartnett, the recovery was in response to the department's charges that, first, the trustees had imprudently bought excessively costly whole life insurance policies for severance fund members; second, the trustees had made these purchases upon the advice of Louis C. Ostrer but they had not bothered to check out his felonious past; third, the insurance companies had violated the insurance law by issuing individual policies without obtaining the individual member's written consent to having his life insured; and fourth, the commissions paid on the policies were "grossly in excess" of those permitted under the Code of Ethical Practices of the National Association of Insurance Commissioners.

The March 4, 1976 action ended the insurance department's proceedings against the 10 severance fund trustees and the two life insurance companies, Executive and Trans World.

However, the department noted, its proceedings against Louis Ostrer, Dina Gelman, Cy Reeves Snyder, Seymour Greenfield, Viscount Agency, Inc., and Fringe Programs, Inc., would continue, resuming March 15, 1976 in the department's offices in the World Trade Center Building No. 2 in New York City. These hearings were still in progress at this writing. The department hoped to be awarded the remaining $900,000 of the original $1.1 million it charged had been depleted from the Local 295 severance fund.

VIII. Findings and Conclusions

Investigation by the Subcommittee staff into the severance trust fund of Teamsters Local 295 showed that the fund and its life insurance feature were established and operated more to benefit the creator of the system—Louis C. Ostrer—and his associates than the workers.

The workers could have had cheaper and more practical insurance coverage and their severance trust fund could have been built and operated on a much sounder footing.

The two major drains on the severance fund were the huge commissions on the individual policies and the exorbitant administrative fees. Both of these resulted in handsome profits for Ostrer and his associates such as Mrs. Dina Gelman, Cy Reeves Snyder and Seymour Greenfield. These profits were gained at the expense of workers.

One example of how workers ultimately suffered was the Ostrer system of paying insurance benefits to beneficiaries. A worker's widow was given the choice of receiving one lump sum payment with a significant discount; or she could take the entire endowment in 10 equal payments across 10 years. Either way, the widow lost and the severance fund gained. But the fund required profitable procedures like this to compensate for the depletions caused by the high insurance commissions and administrative fees.

Another example of how Ostrer designed the severance pay-life insurance plan to benefit himself was seen in his arranging whole life policies for each of the 1,400 workers, rather than negotiating a more conventional—and much less expensive—group plan.

The General Accounting Office estimated that commission costs would have been approximately $10,000—not $800,000—if the coverage had been group rather than individual whole life. Thus, the use of individual policies rather than the less expensive group plan cost the fund approximately an additional $790,000 in commissions.

Ostrer's intention was clear. Individual policies also meant many individual commissions for the agents and the agents were Mrs. Gelman, Ostrer's sister, and his close associates, Snyder and Greenfield.

Similarly, Ostrer saw to it that the same Mrs. Gelman was also awarded the job of administering the severance fund. Again, the returns were lucrative. Ostrer benefited from administrative fee profits, just as he profited from the insurance commissions.

It is apparent, then, that instead of being primarily increased compensation for workers, the fund served as a means for improperly obtaining monies from the severance trust fund. The excessive agents' commissions and the administrative costs—and the very concept of whole life policies—were the avenues through which Ostrer, with Davidoff's concurrence, was able to extract hundreds of thousands of dollars from management at the expense of the workers.

A severance pay-insurance plan provides a wide variety of probably legal but certainly questionable methods for mobsters to obtain huge amounts of funds. A mobster who can speak for organized labor in

pursuit of an apparent legitimate union demand—such as a severance fund—enjoys considerable protection against detection and prosecution. That is one reason why organized crime has been attracted to the union movement for many years.

Accordingly, the investigation by the Subcommittee staff into the severance trust fund and life insurance benefit of Local 295 showed that the local's leadership continued to be infiltrated by persons associated with organized crime.

In the late 1950's and in 1960, the Select Committee on Improper Activities in the Labor or Management Field cited Local 295 as being run by racketeers. The Select Committee was, in effect, an arm of the Senate Permanent Subcommittee on Investigations. Some 16 years have gone by since the Select Committee examined Local 295. There was more than enough time for the Teamsters International to demand that Local 295 be cleaned up.

The mere fact that Harry Davidoff was able to stay on for so long a time as secretary-treasurer and principal leader of the local is sufficient evidence on its face to demonstrate that the corruption that was rampant more than a decade ago was not eliminated.

The Teamsters Union has never lived down the bad reputation it received in the public mind as a result of the activities of Dave Beck, James Hoffa and their associates. The International should be determined that each of its local chapters is run for the benefit of its members and certainly not be led by persons who are associated with organized crime. Hundreds of thousands of men and women who are law abiding members of the Teamsters throughout the nation deserve no less.

With specific reference to the severance pay-life insurance program of Local 295, the Subcommittee staff finds that:

(1) Louis C. Ostrer designed and managed the severance pay-insurance program to make a lot of money for himself at the expense of workers and management.

(2) Ostrer should never have been allowed to participate in Local 295 affairs. Conscientious labor leaders would have noted his ties with organized crime and the fact that he had lost his agent's license in a criminal matter.

(3) The Executive Life Insurance Company of New York and the Trans World Life Insurance Company of New York, which provided coverage for Local 295 under the severance pay-life insurance program, should have refused to have any dealings with Ostrer because his license had been revoked in a criminal matter. A review of the charges levelled against Ostrer would have revealed his criminal past. By doing business with Ostrer, the two insurance companies showed that selling 1,400 insurance policies was more important to them than the ethical considerations of how the policies were being sold and who, in reality, was selling them.

(4) Abuses of the severance fund were of such consequence that the Permanent Subcommittee on Investigations is referring this staff study to the Senate Committee on Labor and Public Welfare. The potential for other abuses of severance funds may be seen in the Local 295 experience and this staff study may be helpful in citing the need for new legislation. Copies of this study are also being referred to the Internal Revenue Service, the Department of Labor, the Department of Justice and the headquarters of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America.

APPENDIX I

[From the New York Post, Dec. 15, 1972]

The Life & Times of Harry Davidoff

(By Robert Garrett)

The court-ordered gags on Harry Davidoff's past have been lifted, following the latest of his many confrontations with law-enforcement agencies. The story of the secretary-treasurer of Teamsters Local 295 can now be told.

The labor boss of Kennedy Airport was convicted last night of 21 separate violations of the Taft-Hartley labor relations law involving the use of his union position to get free airplane tickets. Each count carries a maximum one-year sentence.

He was acquitted of two more counts and an extortion charge was thrown out before the case went to the jury.

Davidoff, 55, a tough-looking, tough-talking man with a sixth-grade education, has been shot, arrested, questioned by Congressional panels and investigated by the FBI. His convictions, dating from the 1930s, include burglary, extortion and gambling. Numerous arrests for felonious assault with a knife, possession of a gun, grand larceny and extortion are listed on his record.

Only last year, Davidoff is said to have threatened a magazine photographer—telling him: "I could have you killed."

The photographer took his picture anyway, perhaps not realizing that the union boss—in charge of hundreds of men handling cargo at Kennedy Airport—was once closely linked to Murder Incorporated, the syndicate's killer squad.

Harry (Duff) Davidoff's crime career began in 1933, when he was 15. By 1943, when he and a brother were shot in a Brooklyn bar and grill, he had gained a fearful reputation and been arrested nearly a dozen times.

The first arrest resulted in a three-year suspended sentence for burglary. In 1940, Davidoff received a suspended sentence for attempted extortion and in the summer of 1943 he was picked up for policy and bookmaking.

The bar shooting, police said at the time, was the result of a gang war in the Brownsville-Canarsie area over control of rackets. Davidoff and his brother, William, were said to be targets of a hired gunman. But Davidoff—who got one slug in his belly—survived.

In the early 1940s, when Davidoff was awaiting trial on charges of conspiracy to violate state banking laws, a madam to whom he had loaned $100 charged him with threatening her with death. Davidoff was sent off to jail for the madam's protection. The next day he was convicted on the conspiracy charge.

The burly gangster eventually found his niche. He moved from one union to the next in a variety of positions: once as secretary, another time as treasurer, then for a short period as president of Toy and Doll International, AFL, Local 130.

As the Toy and Doll boss, Davidoff was named a "trustee" of the union's welfare fund—until the State Insurance Dept. got wind of some expensive hanky-panky with the fund's $58,344. In 1953, Davidoff quietly siphoned off $4600 for a new car and $225-a-week "salary," plus a weekly expense account of $75.

The SID investigation, which stemmed from the murder a year earlier of Thomas Lewis, labor czar at Yonkers Raceway, resulted in rapid union statements denying anything was wrong.

Thev also resulted in Davidoff's quick switch to another union.

JOINED TEAMSTERS IN 1960

In 1960 Davidoff made it into Teamsters Local 295, a union representing cargo handlers, truck drivers and other ground workers at Kennedy, the world's largest cargo terminal.

When he arrived, mob chieftains Vito Genovese and John (Johnny Dio) Dioguardi were said to be in direct charge of the lucrative air freight business at Kennedy.

Davidoff quickly gained control of the union and in 1966, when an investigation into cargo thefts forced president John McNamara to quit, Davidoff became its boss.

Davidoff once boasted he could close the airport down "with a word."

But under oath he was always very sparing with words, taking the Fifth Amendment instead.

NO TESTIMONY

During one such episode, late in 1967, Davidoff faced the State Investigation Commission—probing charges of sabotage, bribery levied against the union—without a lawyer. "I'm not ready to give no testimony," he said. "Without an attorney, I will give no testimony."

When he did appear with an attorney a week later, he took the Fifth Amendment scores of times, as did other mob bigwigs.

Last year, Davidoff was termed a "key organized crime figure" in testimony before a Senate rackets panel. The testimony, given in June, 1971, by James Landry, general counsel of the Air Transport Assn. of America, said:

"Harry Davidoff is the only remaining key organized crime figure associated with JFK Airport who has not been arrested as a result of investigations conducted by federal and local law enforcement authorities . . ."

But Davidoff's time had come: In November, a sealed indictment charged him with extorting nearly $10,000 worth of tickets from Trans-Caribbean Airways over a period of five years, beginning in 1966.

SAID HE MADE THREATS

The 25-count indictment said Davidoff had threatened the airline with a multitude of labor troubles—including strikes—if they didn't give him free tickets, some of which he could pass on to family members. All but one count named specific instances of ticket use, each representing one year and/or a $10,000 fine.

The main charge—extortion—carried a penalty of 20 years and a $10,000 fine.

The week-long trial, began Dec. 5 with defense attorney Michael Gillen showing a clipping from that day's Daily News to Brooklyn Federal Court Judge John Bartels.

The News story said Davidoff had long been "a target of local and federal law enforcement authorities" and linked the union boss to "the incursions by organized crime at JFK."

The lawyer said the statements were "prejudicial" to his client.

Judge Bartels agreed. Calling the reporter, Robert Kappstatter, before the bench, the judge threatened him and the News' editors with contempt, and said he would oust him from the trial if such stories continued.

CAN'T BE TRUSTED

The next morning, after only one witness was heard, the judge again criticized the press. To Kappstatter he said: "I see you can't be trusted."

Other newspapers, including The Post, had noted Judge Bartels' earlier admonitions and had run articles mentioning Davidoff's tarnished background.

The Post, the News and the New York Times were asked to promise not to publish any more information not brought out during the trial itself.

The Post, while declining to submit to any pre-censorship, agreed to abide by the state's voluntary Fair Trial-Free Press code and limit its coverage of the trial to the testimony alone. The Times, through counsel, argued that Davidoff's background was essential to its coverage of the trial. The News, also represented by an attorney, assured the court that Davidoff would get a "fair shake" in its stories.

Judge Bartels, meanwhile, listened to motions for a mistrial, a change of venue and sequestering of the jury. All were denied.

The jurors, polled by the court, all said they had not read any account of the trial in the papers.

Last Monday, when the trial resumed after a three-day adjournment, Judge Bartels again criticized the media for its coverage. He said an article in Newsday, which included Davidoff's arrest record along with other background information, was "prejudicial" to the defendant, and could result in a mistrial.

A mistrial, said Judge Bartels, would be "directly attributable to the prejudicial statements which might be made in the media"—newspapers, radio or television—" that would interfere with the administration of justice."

APPENDIX II

[From the Sunday News, Feb. 25, 1973]

Swindler Makes 250G Bail but Still Winds up in Jail

(By Paul Meskil)

For financial finagler Louis C. Ostrer, it was a case of out of the frying pan, into the fire. Or, more specifically, out of Civil Jail and into the Tombs.

Ostrer, a convicted swindler whose pals include underworld bosses, wanted his freedom so much he put up $250,000 bail to get it. But it lasted only a few minutes. Rearrested for alleged violation of probation, he spent the weekend behind bars in the Tombs, Manhattan's House of Detention for Men.

His latest bout with the law began Thursday when he appeared in Manhattan Supreme Court as a material witness in a grand jury probe of organized crime. Assistant District Attorney John Fine asked Justice Jacob Grumet to hold Ostrer in $10 million bail because "his life is in danger."

"If this man is at large," Fine added, "I have no doubt that he will be killed."

He said the roly-poly Ostrer "has important information" about a mob plot "to assault and murder a certain person." Ostrer denied this.

"To say I have any knowledge of any wrongdoing is absurd," he insisted. "To say that my life is in danger is absurd."

Grumet set bail at $250,000 and sent Ostrer to Civil Jail until he could post the bond, which he did Friday. As he left the jail on W. 37th St., preparing to go home to 181 Kings Point Road in Great Neck, L.I., he was rearrested by officers bearing a warrant charging him with violating the terms of a 1969 probation agreement.

WAS "THE GREATEST"

In June 1969, Ostrer pleaded guilty of stealing, forging and cashing $338,370 worth of checks belonging to his employer, Canada Life Assurance Association of Toronto, which had once called him "the greatest insurance salesman on the continent."

Placing Ostrer on five years' probation, Manhattan Supreme Court Justice Xavier Riccobono had said: "It would appear that almost any venture you undertake, obviously because of those talents and gifts that have been given to you by the Almighty Himself, seems to enable you to convert almost anything into a very successful enterprise. It is inadvisable, under these circumstances, for the court to take these talents, these God-given talents, and incarcerate them by incarcerating you."

Last month, Ostrer and Mafia Mobster John (Johnny Dio) Dioguardi were convicted in Federal Court of conspiring to manipulate stocks. They were accused of plotting a $1 million stock swindle. They are to be sentenced March 13 and could get up to five years in prison.

At Thursday's court hearing, prosecutor Fine said Ostrer had information on big-time loan-sharking and was "indebted to known criminals" who run loan-shark operations and have more than $75 million "out on the street" on any given day.

APPENDIX III

U.S. General Accounting Office, April 13, 1973

Office of Legislative Liaison—Roger Sperry

REGIONAL MANAGER, NEW YORK—ALFONSO J. STRAZZULLO

(Review of Plans, Programs and Financial Transactions Relating to the Severance Benefit Trust Fund of Local 295 (Code 97518))

We have completed the additional work requested by the Permanent Senate Subcommittee on Investigations and the results are included in the attached workpaper summary.

To recap, our review was primarily concerned with determining whether the plan is adequately funded to protect the rank and file of the Local's membership. We have satisfied ourselves that the severance benefits paid were in accordance with the rules and regulations of the fund. In addition, we have also reviewed the life insurance benefits paid for deceased employees and again are satisfied that the rules and regulations of the fund were compiled with.

Other matters that came to our attention concerning the administration of the fund have been enumerated in the attached workpaper summary.

If we can be of any further assistance to the Subcommittee on this matter, please let us know. The workpapers on this assignment are being retained in this office.

Attachment.

Summary on the Review of the Severance Trust Fund of Local 295 International Brotherhood of Teamsters

BACKGROUND

At the request of the Senate Permanent Subcommittee on Investigations, the GAO reviewed the Severance Trust Fund of Local 295, International Brotherhood of Teamsters. The review which was performed at the local's office near John F. Kennedy Airport consisted of an analysis of receipts and disbursements for the trust fund during the period December 1, 1970 through November 30,1972.

Local 295 has a membership of 1300–1400 individuals who are engaged in the trucking of air freight at John F. Kennedy Airport, New York, N.Y. The current union agreement which was negotiated for the three year period effective December 1, 1970 provides for the establishment of a Severance Trust Fund for the employees.

The agreement called for a contribution by the employees of $15 per employee per week during the first year of the contract with successive increases during the second and third year to $30 and $40, respectively. Upon severance, regardless of the reason, the employee shall receive what has been contributed in his behalf plus any increments that may have accrued on his behalf less his applicable portion of fund expenses and insurance premiums. However, the member is guaranteed that as a minimum he will receive what his employer contributed for him. For those employees who entered the program after December, 1970 and who subsequently terminated, the amount received would only represent a percentage of the amount contributed.

An insurance provision was added to the Severance Trust Fund which provided death benefits to the survivors of employees vested in the program. The program provides the beneficiary with the option of receiving the proceeds of the program over a stipulated period or taking the proceeds in a lump sum. The latter method considers certain downward adjustments to the face value of the policy.

Fringe Programs, Inc. was selected to be the administrator of the Local 295 STF. In addition to its function as administrator, it was authorized to negotiate the proposed life insurance with a duly licensed agent and to obtain the best terms and conditions available for the STF. Fringe Programs selected Cy Reeves Snyder to be the agent; subsequently, he was replaced by Dina Gelman.

Local 295 STF purchased insurance for its members from the first year contributions from Executive Life Insurance Co. of New York. This insurance was increased with the increase in contributions during the second year (beginning 12/1/71) by purchasing additional insurance from Transworld Life Insurance Co. These insurance policies were individual whole-life policies with the fund as beneficiary.

RESULTS OF REVIEW

Cash Receipts and Disbursements

Local 295 STF had receipts totalling $3,304,336 for the two-year period December 1, 1970—November 30, 1972. During the same period $2,156,171 was disbursed (not including interbank disbursements), resulting in a net cash balance of $1,148,165 at November 30, 1972.

Local 295 STF has had four checking accounts during the two-year period:

Bank	Account No.	Period
Kings Lafayette	010031839	January to April 1971.
Central State (regular account)	1–22953–6	April 1971 to September 1972.
Central State (disbursement account)	1–22967–7	Do.
Chemical Bank	125007205	June 1972 to present.

When there were two Central State accounts, one was used for normal receipts and disbursements and another ("disbursement account") was used to disburse payments to severed and deceased union members.

Sources and Applications of Cash

The major source of cash for the STF was employer contributions. These totalled $2,966,220 for the two year period December 1, 1970–November 30, 1972. The largest use of this cash was for insurance premium payments which totalled $1,531,234.

The following schedule shows the major sources and applications of cash:

	Total	Percent of total
Sources:		
Employer contributions	2,966,220	89.8
Life insurance proceeds	312,500	9.5
Interest income	11,876	.7
Other	13,740	
Total sources	3,304,336	100.0
Applications:		
Premiums—Executive Life of New York	1,014,571	47.1
Premiums—Transworld Life Insurance Co	516,663	23.9
Life insurance benefits paid	192,244	8.9
Severance benefits paid	175,764	8.1
Administrative fees—fringe programs	148,198	6.9
Legal fees	36,010	1.7
Audit fees	12,900	.6
Wages (gross)	15,900	.8
Rent	7,196	.3
Other	36,635	1.7
Total applications	2,156,171	100.0
Cash—as at Nov. 30, 1972	1,148,165	

Significant receipts

(A) *Employer contributions.*—Employer contributions totalled $2,966,220 for the two-year period. Local 295 contributed $11,940 itself; local 295 STF as an employer contributed $1,815; and local 295 group welfare and pension fund contributed $12,950.

(B) *Life insurance proceeds.*—For the period December 1, 1970–November 30, 1972, the STF received life insurance proceeds totalling $312,500 representing the collection of the face amount of policies on fifteen employees who died. As of November 30, 1972 benefits on twelve of these cases had been settled. These settled cases had face amounts totalling $250,750 and benefits of $192,244 were paid on them to beneficiaries. The difference of $58,505.55 was incorporated into the fund as income due to beneficiaries electing to take the life insurance in a lump sum (and, hence, receiving only a commuted or discounted value) instead of taking the full amount over a ten year period.

(C) *Interest income.*—Interest income totalled $11,876 for the two year period. This consisted of interest received on cash deposited in savings accounts and invested in certificates of deposit.

Cash disbursements

(a) *Premiums—Executive Life of N.Y. and Transworld Life Insurance Co.*

The local 295 STF disbursed a total of $1,531,234 for premiums on insurance policies to Executive Life of N.Y. and Transworld Life Insurance Co. Premiums were paid to these insurance carriers on a monthly basis.

A total of 27 checks were written to Executive Life of N.Y. totalling $1,014,571. A total of 13 checks were written to Transworld Life totalling $516,663.

(b) *Life insurance benefits paid*

The local 295 STF paid $192,244 in life insurance benefits to beneficiaries of twelve union members who died. All of these payments were taken in a lump sum known as commuted value with the exception of one death claim.

(c) *Severance benefits paid*

During the two year period ending November 30, 1972, the STF disbursed $175,764 in severance benefits to a total of 242 employees of Local 295 who terminated their employment. These members received as their severance benefit the amount of money contributed for them into the severance fund by their employers.

(d) Administrative fees

Fringe Programs, Inc. was paid a total of $148,198 for administration of the Local 295 STF through November 30, 1972. A total of six checks were paid to Fringe as follows:

Explanation	Date	Amount
Advance on administrative fees	Aug. 26, 1971	$50,000.00
Balance for 1st yr of administrative fee—Dec. 1, 1970 to Nov. 30, 1971	Feb. 10, 1972	36,877.90
Services Dec. 1, 1971 to Apr. 30, 1972	May 8, 1972	20,000.00
Services May and June 1972	June 22, 1972	19,305.85
Services July to September 1972	Sept. 15, 1972	13,394.05
Services October and November 1972	Nov. 21, 1972	8,620.40
Total		148,198.20

In addition, Fringe was paid a subsequent amount of $10,718.92 on January 16, 1973 for services rendered December, 1972–January 1973. This is probably the last payment to Fringe as it was terminated as administrator of the fund by the Trustees as of January 31, 1973.

(e) Rent

The Local 295 STF paid a total of $6,196.00 for rent to the landlord of the building at 179–30 149th Avenue, the 146th Drive Property Corporation which in turn is owned by the Local 295 Employees Group Welfare Fund. A total of 15 checks were paid, the monthly rent being $359.80. The rent for the building is allocated among the five tenants of the building on a square footage basis. These five tenants are Local 295, Local 295 Group Welfare, Local 295 Pension Fund, Local 295 Severance Trust Fund, and Local 851. The Severance Trust Fund actually began paying rent in April, 1971, as it was only then that the above allocation was made.

(f) Legal

The Severance Trust Fund has hired two attorneys, one representing the union trustees, Herbert Simon, and one representing the management trustees, Haskell Wolf. It pays each of them $750 a month. Through November 30, 1972 it has disbursed $18.017.50 to Herbert Simon (20 checks) and $18,000 to Haskell Wolf (20 checks). The extra $17.50 paid to Simon was for expenses incurred in serving a subpoena.

(g) Audit fees

The STF's accountants, Finklestein, Goldstein and Rick were paid a total of $12,900 through November 30, 1972 (16 checks). They were paid $450 a month through April, 1972, at which time their retainer was increased to $750 a month.

(h) Wages

A total of $15,990 was paid in gross wages to the one bookkeeper the fund employs. Until July 1, 1972 Pat Barnett was the bookkeeper and she received $12,075 in wages ($9,540.30 in net salary paid in 69 weekly checks). She was succeeded by Marilyn Franchi whose gross salary totaled $1,575 paid over a nine week period through September 1, 1972 ($1,198.80 in net salary paid in nine weekly checks). From September 4, 1972 until October 4, 1972, the STF did not employ a bookkeeper. However, an employee of the Local 295 Group Welfare and Pension Fund, Diane Norton, worked her lunch hours and evenings to keep the STF records in order. She was subsequently reimbursed for these services by being paid a gross salary of $1,050 (net salary $725.40) on October 26, 1972.

On October 4, 1972, Roslyn Henry was hired as bookkeeper for the STF. She remains at present in this position. Through November 30, 1972 her gross salary was $1,290 ($1,045.42 in net salary paid in nine checks for nine weeks employment).

(i) Trustees' meetings stenographer

Arnold Levy, stenographer for the Local 295 STF Board of Trustees Meetings, was paid $4,780.25 for recording and transcribing the minutes of 16 Trustees meetings. This amount was paid in sixteen checks, one after each meeting.

The union trustees' attorney for the STF informed us that there was no contract with Arnold Levy. Rather, the Fund pays Levy for his services provided his bills are considered normal and reasonable in his profession. Yet this criteria has resulted in the fund paying Levy $140 for 10 copies of 56 pages of minutes, while for the next meeting the fund paid $325 for 10 copies of 65 pages of minutes.

Cash balance

The Local 295 STF had cash totalling $1,148,165 at November 30, 1972. The following is a schedule of the cash items as of this date:

Checking account (Chemical Bank)	$148, 165
Savings account:	
Inter-County Savings Bank	10, 000
Cohoes Savings Bank	20, 000
Roosevelt Savings Bank	20, 000
Erie County Savings Bank	20, 000
The Dime Savings Bank of Williamsburg	20, 000
Rochester Savings Bank	20, 000
Monroe Savings Bank	20, 000
Albany Savings Bank	20, 000
City and County Savings Bank	20, 000
Home Savings Bank	20, 000
The Western New York Savings Bank	20, 000
The Seaman's Bank for Saving	20, 000
Goshen Savings Bank	20, 000
Total	250, 000
Certificates of deposit:	
Banco Popular	150, 000
Chemical Bank	100, 000
Bank of Tokyo	100, 000
Dollar Savings Bank	400, 000
Total	750, 000
Grand total	1, 148, 165

The $150,000 certificate of deposit (CD) issued by Banco Popular on April 28, 1972 was sent by the bank to the STF on May 1, 1972. Shortly thereafter, the custodian claims to have misplaced the CD. At this time the STF notified Banco Popular who assured them that they would honor the CD on its maturity date (April 23, 1973) by paying the proceeds only to STF. We have not been able to obtain any written confirmation of this statement.

A Banco Popular official told us that the CD is negotiable and that, should someone acquire it with the rights of a holder in due course, the bank might be forced to pay that person. The possibility that such a situation may occur casts considerable doubt on the value of the verbal assurance given to the STF.

The board of Trustees of the STF has not been informed of the loss of the CD.

All the remaining certificates of deposit and savings account books are merely kept in a draw of a file cabinet which is locked at night.

Severance Benefits Paid

During the two year period ending 11/30/72, the STF disbursed $175,767 in severance benefits to 272 members.

According to the STF accountant and in accordance with the fund's existing rules and regulations, an employee upon severance receives as his benefit, the amount actually contributed by his employer. Should the employer be deficit in his contribution the benefits realized by the employee are adjusted accordingly.

In order to determine whether the severence benefits paid were computed in accordance with the rules and regulations of the fund, we reviewed severance benefits paid to a random number of separated employees. In addition, we reviewed the severance benefits paid to certain deceased employees. The discrepancy noted consisted of overpayments in some of the cases examined. In total the overpayments did not exceed $750.

Life Insurance Benefits Paid

As at March 1, 1973 one death claim remained unsettled as a result of a dispute concerning the legal beneficiary.

As regards those claims that had been paid our tests revealed that the fund was paying the proper amounts to beneficiaries, using correct commutation rates, and maintaining adequate documentation concerning these claims. The only

exception noted resulted from the fund's failure to obtain a signed acknowledgement of a widow accepting the lump sum amount in lieu of payment over a five year period.

Addendum

Subsequent to the period under review, the Board of Trustees of the Local 295 Severance Trust Fund elected to terminate the individual whole life policies they had purchased during the first 2 years of their 3 year contract. The face value of these individual policies was determined by the members age at the time he became a member of the Fund, with the younger members receiving much greater coverage than the older members. For this type of coverage the STF had paid $1,531,234 during this 2 year period, with $1,029,457 of this amount being disbursed during the year which ended November 30, 1972.

After re-evaluation of the type of insurance coverage which had been provided, the Board of Trustees substituted group term insurance with constant coverage of $30,000 for each member, regardless of age. The yearly premium cost under this new coverage is to be $240,428 and is almost $790,000 less than what was disbursed in the form of premiums for the preceding year.

APPENDIX IV

Affidavit

State of California
County of Los Angeles, ss:

Otto Forst, being duly sworn, deposes and says:

First, that I make this affidavit at the request of Robert Dunne, Assistant Counsel of the United States Senate Committee on Government Operations, Permanent Subcommittee on Investigations, after a series of conferences. Harry O. Miller, Esq., General Counsel of First Executive Corporation and Executive Life Insurance Company of New York, has been given the opportunity of reviewing this affidavit prior to my signature of it. I understand that this affidavit may be used in lieu of my testimony in an executive session or public hearing of the Subcommittee. I have been given a copy of the current rules and resolutions. I understand that the Subcommittee's inquiry is concerned with the propriety of the insurance aspects of labor/management severance plans involving Louis Ostrer.

Second, I am Chairman of the Board of First Executive Corporation, a California corporation which is a holding company for several insurance companies, one of which is Executive Life Insurance Company of New York.

Third, First Executive Corporation owns approximately 94 percent of the outstanding shares of common stock of Executive Life Insurance Company of New York.

Fourth, I personally and/or members of my family own or control less than 5 percent of the outstanding shares of First Executive Corporation.

Fifth, Louis Ostrer's name was known in the insurance industry, and he had the reputation of being an excellent producer. For a number of years—possibly six or seven or eight—I had been attempting to get him to write business through the subsidiary companies of First Executive Corporation. I would drop in to see him at his offices in New York City from time to time. He possibly wrote one small case, as he was a licensed agent with our company in 1967. The small commissions still payable on this case are not being paid because of the revocation of his license. His attempt to designate another payee was rejected by the company. We rejected several proposed cases he brought to us because they appeared to be bad medical risks. Since I was unsuccessful in getting any substantial volume of business, I stopped seeing him sometime before September 31, 1968.

Sixth, on December 31, 1968, First Executive Corporation acquired 74 percent of the outstanding stock of Citizens Life Insurance Company of New York, and on January 1, 1969, the name of Citizens Life Insurance Company of New York was changed to Executive Life Insurance Company of New York. Two of Ostrer's associates, Cy Reeves Snyder and Seymour Greenfield, had written business for Citizens Life Insurance Company of New York before the acquisition, and Cy Reeves Snyder continued writing a small volume of business with Executive Life Insurance Company of New York.

Seventh, I do not recall seeing Louis Ostrer between December 31, 1968 and March 25, 1970, when Ostrer appeared at my office in Beverly Hills, California, and described to me the concept of labor/management severance funds. Mr. Ostrer

described the concept to me, and emphasized the advantages over pension plans currently being offered to union employees. He was particularly enthusiastic about the appeal of the early vesting and the cash option to younger union members, and the social desirability of making the benefits easily portable. He described how most qualified retirement plans locked employees in and interfered with job mobility, and then failed to deliver benefits for a substantial percentage at retirement because of the lack of portability and reasonable vesting. He was certain that his severance plan concept, which he had already had approved by the Internal Revenue Service as a qualified retirement program under Section 401 of the Internal Revenue Code, would revolutionize benefit practices under collective bargaining. I am not sure whether he spoke specifically of Teamsters' Local 295, but he did speak in terms of hundreds of millions of dollars of face value insurance. I know he spoke of a group of Pan American employees at that time. He told me he had already written severance plans with a number of insurance companies including Manhattan Life Insurance Company, Beneficial National Life Insurance Company, and Transworld Life Insurance Company.

Mr. Ostrer said that he had designed the severance plans, and was acting as consultant to a number of trusts. He told me that as consultant, the trustees would accept his advice as to the insurance agent to be selected. He wanted my assurance that the company would pay commissions on substantially the same basis as Transworld Life Insurance Company paid for its severance insurance programs. He showed me his agreement with Transworld Life Insurance Company, and I advised him that if the arrangement were lawful we would be willing to pay the commissions at that level. I understood that the policies applied for would be on a guaranteed issue basis, and that Executive Life Insurance Company of New York would not be able to do individual risk selection. We reached an agreement then, in principle, that Executive Life Insurance Company of New York would advance the entire first year's premium to the writing agent upon production of any such severance fund case. Until six (6) weeks ago, that was the only appearance Louis Ostrer ever made at our California offices, to the best of my recollection.

Eighth, I was in New York City on October 21 and 22, 1970, and again on November 17 and 18, 1970, and saw Ostrer on both occasions. I am absolutely certain that by the November trip we were speaking specifically of Teamsters' Local 295, and specifically of a severance fund contribution by management of $15.00 the first year, $30.00 the second year, and $40.00 the third year, slightly less than half of which was to be available for the purchase of life insurance.

Ninth, I agreed then to advance the first year's commissions in cash as soon as the case was written. I had expected that the first year's premium would be received in one lump sum, but as it developed, the premiums were to be paid to the company in monthly installments. Consequently, I agreed to loan the writing agent an amount equal to the first year's commissions by taking back a series of promissory notes which were non-interest bearing, and which were repayable over the next four (4) years.

Tenth, I understood from my general association with people in the industry that Ostrer had had some difficulty with Canada Life Assurance Company. Ostrer sloughed off the importance of this, but we did discuss the fact that he was the consultant of the fund and had no current New York license, and that the insurance would have to be written through the agent and/or broker designated by the trustees. He indicated that the trustees would accept his advice as to the agent. I understand that it is customary for a consultant and administrator to be consulted concerning appointment of an insurance agent. Additionally, Ostrer had produced data to me showing that he had similar arrangements with Foundation Life Insurance Company of America, Beneficial National Life Insurance Company, Transworld Life Insurance Company of New York, and Manhattan Life Insurance Company. The New York Insurance Department routinely allows first-year sales compensation of up to 96 percent, and we were only paying 50 percent. The severance program of Local 295 was split funded with only one-half of the contribution applied to the purchase of insurance. This meant that first year sales compensation was approximately 25 percent of first year contributions. It is customary in the industry to split fund qualified retirement plans where individual life insurance policies are going to be used to fund part of the benefits.

Eleventh, I want to make it clear that as far as this company was concerned, Louis Ostrer controlled the placing of the severance fund business with us. He had designed the plan and the trustees would rely upon him for advice as to which insurance company should be selected, and it was my policy to take those steps

which he proposed in order to accomplish the writing of the case. I do not recall meeting either Dina Gelman or Cy Reeves Snyder before they were selected as writing agents. This is not unusual. In response to your specific question, I do not believe that the company in any way violated any law of the State of New York, and a number of reputable New York insurers obviously came to the same conclusion as attested to by the fact that they wrote identical programs before Executive Life Insurance Company of New York was selected as the carrier for Local 295's severance program.

Twelfth, the actual case was originally written through an agent, Cy Reeves Snyder. I have never met Mr. Snyder in my life. Some weeks or months later, the paperwork on the obtaining of a general agent's license in New York for Ostrer's sister, Dina Gelman, were completed, and all of the promissory notes, guarantees, commission agreements and other papers connected with the case, which were originally written under Cy Reeves Snyder, were routinely transferred to Dina Gelman and her agency. At the same time that commissions were assigned to Dina Gelman, she assumed the promissory notes evidencing the loans which had originally been made to Cy Reeves Snyder.

Thirteenth, although many of the documents in connection with the Local 295 severance program were executed on behalf of the company by Norbert F. Lochner, its basic negotiations were carried on by me, and the legal documents were drafted by Harry O. Miller. Mr. Lochner executed documents confirming agreements which I had made, and, I believe, relying on the advice of Harry O. Miller.

Fourteenth, in about the middle of 1971, we made a determination, based on our experience in this case, that from an actuarial point of view, it was a bad case from the company's point of view. Death claims were considerably higher than anticipated. We informed Ostrer that if the company was to take on the second year's business—which was equal in premium dollars to the first year's business—there would either have to be a reduction in the face value of the insurance written approximating 15% for the same premium, or else a renegotiation of the commission rate which in substance would amount to dropping the persistency bonus. Ostrer complained that he was not in a position to reduce the face amount of the policy for the second year, and refused to take a reduction in the commissions payable to the agent, since other companies were willing to take the business at the old premium rate, and at the old commission level. Consequently, we were no longer interested in writing the second year increment. Notwithstanding, at his request, we prepared a letter to the trustees asking for a $50,000.00 advance in premiums for this second year. This letter was dictated in substance by Ostrer. At the time the letter was sent, there appeared to be a possibility that commission levels could be renegotiated.

Fifteenth, between the time that the letter referred to in the preceding paragraph was written, and the time that the decision was made as to who the carrier would be, the actuaries of Executive Life Insurance Company of New York were in contact with Manhattan Life Insurance Company, Transworld Life Insurance Company of New York, and Beneficial National Life Insurance Company. Executive Life Insurance Company of New York pooled all raw data as to premium, claims, and commissions for all cases, and reached a determination that the severance programs were not profitable for us. The companies cannot make money unless there is a tremendous improvement in the mortality rate, which does not seem likely. I understand that the second year's insurance was written through Transworld Life Insurance Company of New York, who advanced 90 percent of the first year's premiums to the writing agent.

Sixteenth, the only other time that Ostrer was in our California offices was March 31, 1972. He stated he had just arrived from Las Vegas and had a very large severance fund case involving the culinary workers there, which would involve some $2,000,000.00 per year in premiums. He asked for $100,000.00 advance to the writing agent, Seymour Greenfield, against future commissions, although the case had not been written. I refused.

Seventeenth, the type of insurance written is actually known in the trade as "group ordinary life," and the premiums paid are routine for this type of insurance. The New York Insurance Department has advised the trustees of Local 295 that the commissions paid in connection with their severance program exceed the commission rate in the NAIC Code of conventional practices. The New York Department concedes that the NAIC Code of conventional practices does not have the force of law in New York.

In addition, we are convinced that the commission rates set in the Code were meant to apply to group term insurance. No substantial amount of group term

was sold at the time the Code was adopted, and commission levels paid by Executive Life Insurance Company of New York in connection with the severance programs are similar to commission levels paid in connection with group permanent ordinary life by other New York insurers. The Manhattan Life Insurance Company, for instance, pays up to 96 percent of first year's commissions on ordinary group life, and total commissions of about 165 percent over the first ten (10) years. There is nothing that would prevent the trustees of the severance fund in dealing directly with us. There is no need for the intervention of a broker and/or agent in an insurance matter, but it would be illegal for us to quote a lower rate in dealing directly. It would be technically and legally feasible to experience rate the ordinary life policies written in connection with severance programs, and give experience rating credits if justified by earnings. However, this would require a different premium rating structure similar to the rating structure for participating business, and with the bad mortality experience involved, I do not know whether it would have been advantageous for the trustees of Local 295. Such an experience rating approach would probably require approval of the New York Insurance Department, and in the past they have consistently exercised their power of approval to prevent the smaller New York life insurance companies from competing with the large eastern mutuals. A relatively new insurance company Congressional Life of California, has no agents, and conducts all its business by mail. Although I am not intimately acquainted with its operations. I don't believe that its product is any cheaper than products sold by companies which do business through agents.

Eighteenth, I have been deeply concerned about the aspects of the severance fund insurance currently being written, and believe the federal government should consider the passage of legislation which would permit insurance companies to deal competitively—with or without agents/brokers—for this new type of business. Possibly, the companies could be permitted to quote a standard rate and compete on the basis of an "experience refund" as the actuarial experience developed over the years. I strongly support the idea that qualified retirement plans should be changed to provide for earlier vesting and portability of benefits. A man should not be tied to a particular location or a particular company, and it is wrong for a substantial percentage of the people covered under pension plans to finish their careers with no pension benefits.

Nineteenth, in June, 1971, Ostrer requested that an additional loan of $20,000.00 be made to Seymour Greenfield. I agreed because premiums on the Local 295 case were coming in somewhat higher than expected originally.

OTTO FORST.

On this 31st May, 1972, before me, the undersigned, a Notary Public in and for Baden-Baden personally appeared Otto Forst, known to me to be the person whose name is subscribed to the within affidavit, and acknowledged to me that he executed the same.

Witness my hand and official seal:

_____ _____,

Notariat II Baden-Baden.

_____

APPENDIX V

REPORT TO THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, COMMITTEE ON GOVERNMENT OPERATIONS, UNITED STATES SENATE

Study Of The Local 295 Severance Trust Fund Of The International Brotherhood Of Teamsters, Chauffeurs, Warehousemen And Helpers Of America

B-175012

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

71-542 O - 76 - 5

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-175012

The Honorable Henry M. Jackson, Chairman,
Permanent Subcommittee on Investigations
Committee on Government Operations
United States Senate

Dear Mr. Chairman:

In response to your request of December 28, 1971, this is our report on our study of the Local 295 Severance Trust Fund of the International Brotherhood of Teamsters (the Plan).

Please note that our study is not based on an audit of the financial records of the Fund but largely on information extracted from the minutes of the meetings of the Plan's board of trustees and on data furnished by the former Plan administrator and by representatives of the Executive Life Insurance Company of New York.

Also, the study is based on the Plan as it was structured during its first 2 years of operations. Substantial changes have been made in the Plan's provisions during the past 2 months, but we understand that you are primarily interested in the type of plan initially adopted by the trustees.

Supporting and supplementary data developed by our actuarial staff will be made available to your staff if you so desire.

As you requested, we have not obtained comments on the report from the former administrator or the trustees of the Fund, the union, employers, the insurance agent, or companies involved. Our findings have been discussed with representatives of the New York State Department of Insurance.

We will not distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, COMMITTEE ON GOVERNMENT OPERATIONS UNITED STATES SENATE

STUDY OF THE LOCAL 295 SEVERANCE TRUST FUND OF THE INTERNATIONAL BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, WAREHOUSEMEN AND HELPERS OF AMERICA B-175012

D I G E S T

WHY THE STUDY WAS MADE

The Chairman of the Senate's Permanent Subcommittee on Investigations asked GAO to assist in the investigation of the Teamsters Local 295 Severance Trust Fund (the Plan).

The Subcommittee, concerned with some insurance practices being used in the Plan, asked GAO to make an actuarial study to determine whether the Plan (1) was properly funded and (2) adequately inured to the members' benefit.

The GAO study was made in close cooperation with the Subcommittee staff and was designed to supplement the staff's work.

Background

The Plan was established to pay severance benefits to Local 295 members upon termination of employment. It resulted from collective bargaining agreements between Local 295 and the employers of union members, effective for the 3-year period ending November 30, 1973.

Membership in the Plan averaged about 1,300 during the first year. Members are engaged in the trucking of air freight at the Kennedy Airport in New York City.

Each employer agreed to pay into the trust fund the following amounts per member for each week the member is on the payroll: $15 during the first year of the Plan; $30 during the second year; and $40 during the third year.

Under Plan provisions in effect during the first 16 months, severance benefits were paid when a member's employment was terminated. In event of a member's death, his beneficiary received an additional death payment funded from the proceeds of life insurance policies purchased by the Plan.

A 10-member board of trustees administers the Plan; 5 representing employers and 5 representing the union.

FINDINGS AND CONCLUSIONS

Insurance aspects of the Plan

Trustees purchased individual level-premium insurance policies on the life of each member during the first and second years of the Plan. The decision to provide insurance as a severance benefit was significant because almost half of the employers' contributions were applied to that purpose during the Plan's first 2 years.

The following aspects of the insurance coverage may interest the Subcommittee:

--Using individual insurance policies rather than a less expensive

MAY 21, 1973

group policy was of questionable benefit to members, considering the substantially greater premium costs to the Plan.

Individual policies also resulted in much greater commissions being paid to the insurance agency. Compensation to the insurance agency on individual policies purchased by the Plan during the first 2 years is estimated at about $800,000. GAO estimates compensation to the agency would have been about $10,000 for the same amount of group term insurance. (See p. 12.)

--Aside from the form of insurance provided, including life insurance of any type as a part of the benefit structure of a severance plan is of interest.

Insurance protection was not specifically required by the agreement between the union and the employers. Local 295 members had already been provided life insurance coverage under the Group Welfare Fund.

It would seem that, if additional insurance coverage were desirable, it would have been more logical to provide it through the Group Welfare Fund.

--The Plan, itself, was named as beneficiary of policies purchased during the first 2 years. Certain policies were issued without a consent agreement or an application signed by the insured persons. (See p. 17.)

--Trustees were not paying members' beneficiaries full proceeds of the life insurance policies purchased on members' lives. If a member died before age 55, his beneficiary received about 74 percent of the face value. (See p. 18.)

Was the Plan Properly Funded?

A test commonly used for determining soundness of financing of an employee benefit plan (such as the Local 295 Plan) is simply to determine whether the plan will be able to pay benefits provided under its terms.

To pass this test, the plan's present value of expected future receipts together with its assets must be equal to or greater than the present value of benefit payments and expenses expected to be paid in the future. In addition, at no point in the future should the fund's cash position be projected as negative.

By applying the above criteria to the Plan, as it operated during the first 16 months, GAO calculations show that, if the Plan were terminated on November 30, 1973, the expiration date of the present union-management agreements:

--It could not have been expected to have sufficient assets to pay benefits as they were determined during the first 16 months.

It could not have been expected to be able to pay such benefits immediately because its earnings would not have been sufficient to offset expenditures made for insurance premiums, administrative expenses, and benefit payments.

--It would have taken from 15 to 20 years before its earnings would have put it, if terminated, in a position to immediately pay termination benefits (contributions made on member's behalf,

subject to forfeiture provisions for noninception members).

Although GAO projections, based on the assumptions on pages 21 to 22, indicate that the Plan--if it had been continued--should have been in position to pay benefits (as determined during the first 16 months of the Plan) as members terminated, GAO feels constrained to point out the following reservations.

--The soundness of projections is dependent on how closely the assumptions predict future experience. GAO assumptions regarding termination rates were based on data covering a relatively short period--about 7 months--and therefore would have been subject to greater uncertainty than usual for such projections.

--Plan documents were loosely worded and contradictory in some aspects and GAO's interpretations of Plan provisions were based largely on trustees actions during the Plan's first year.

--Future economic conditions can strongly affect the Plan's financial condition. For example, employers may not be able to continue the work force at the present level or to continue to make contributions at the specified rate.

Did the Plan adequately inure to the benefit of the members?

GAO believes benefits provided to the members would not have been commensurate with costs of the Plan. GAO concluded that a plan the size of Local 295 should return, in terms of present values, benefits to employees of about 95 percent of the contributions made to the plan. This was based on data published by the New York Insurance Department on jointly administered welfare and pension plans.

By contrast, GAO's analysis showed that the Plan would have returned--in terms of present values--only between 72 and 83 percent of employer contributions. (See p. 29.)

Trustees provided a form of life insurance, as part of the benefit package, which was much more costly than normal for a plan of this size. As a result, substantial portions of employers' contributions were applied to insurance commissions that could have been applied to employee benefits if group insurance had been obtained.

Administrative costs incurred by trustees and the Plan administrator were considerably greater than the average costs for other employee benefit plans in New York.

Conclusion

The Plan was not formulated or administered in the best interests of members. The Plan would have returned to the members too small a proportion of the fund's income. Other media would have enabled the Plan to provide greater benefits to members or would have required smaller employer contributions.

In early 1973 the Trustees made a number of changes which GAO believes will improve the soundness of the fund, and in the long run, result in greater benefits to the total membership of the Plan.

CHAPTER 1

INTRODUCTION

The Teamsters Local 295 Severance Trust Fund (the Plan) was established to provide benefit payments to eligible members of Teamsters Local 295 upon termination of employment. The basis for determining benefit amounts for which members are eligible was not clearly and consistently described in the Plan's formal documents. Therefore, this report is based on (1) our review of the minutes of the board of trustees meetings, (2) explanation of the Plan by a representative of the former Plan administrator, and (3) formal documents.

The collective bargaining agreements covering members of Local 295 established a severance trust fund in to which employers would pay specified contributions. These agreements contain no details about the benefits to be paid from the trust fund, but use of the word "severance" indicates that the Plan's primary purpose is to make benefit payments upon termination of membership in the Plan. Actually almost half of the contributions were used to purchase individual life insurance policies with high initial expenses.

The discussion of member benefits in the Plan documents includes frequent references to the member's share account and net account. According to Plan rules and regulations, a member's account is to be credited with (1) the contributions made by the employer(s) on behalf of the member and (2) increments representing his share of other earnings of the Plan, as determined by the trustees. A member's account is to be reduced by (1) the premiums for the insurance policy (or policies) on his life, (2) his share of the Plan's administrative expenses, and (3) certain other charges, as determined by the trustees.

According to Plan documents, the balance in a member's account primarily determines the member's benefits.

PAYMENTS UPON TERMINATION OF EMPLOYMENT FOR REASONS OTHER THAN DEATH

Plan rules and regulations (section 3.06) provided that a member, whose employment was terminated for reasons other than death and who was a member of the Plan on

December 1, 1970, (inception member),[1] would be entitled to the amount standing to his share account as of the date of termination.

However, section 4.05 provided that any member

" * * * who retires or terminates other than by reason of death shall receive as a minimum the benefit provided by the total amount of Employer contributions to the Trust Fund on his behalf."

The phrase, "the benefit provided by the total amount of Employer contributions," was not defined or further explained in the Plan Rules and Regulations.

The severance payments made to inception members between December 1, 1970, and March 31, 1972, were equal to the total contributions made on the members' behalf without any additions or deductions.

According to the minutes of a board of trustees meeting, members who entered the Plan after December 1, 1970 (noninception members), and subsequently terminated with less than 5 years in the Plan, received only a portion of the contributions made on their behalf. Noninception members were to be paid the following percentages of contributions credited to their accounts.

Years of membership in Plan	Percentage of employer contributions
Less than 1	-
At least 1 year but less than 2	20
At least 2 years but less than 3	40
At least 3 years but less than 4	60
At least 4 years but less than 5	80
At least 5 full years	100

---

[1]Certain groups of employees were considered inception members even though they entered the Plan after December 1, 1970.

Benefits payable to persons terminating or retiring at age 65 or more were essentially the same as those payable to other persons terminating for reasons other than death, except that noninception members were apparently not required to forfeit any portion of the contributions made on their behalf.

The termination benefits have not been substantially changed by the revisions to the Plan documents and administrative procedures which have taken place during the first quarter of 1973.

PAYMENTS UPON TERMINATION OF EMPLOYMENT BECAUSE OF DEATH

The beneficiary of a member whose employment terminated because of death received, in addition to the severance benefit, a death benefit which was funded by the proceeds of life insurance purchased by the Plan on the member's life. Section 3.17 of the rules and regulations prescribed the following basis for determining amounts payable to the beneficiary in such cases:

> "Payment of the Member's net account shall be made in full to the Beneficiary after due proof of death has been received by the Trustees. The Member's net account shall be equal to the Employer contributions credited to such account plus increment or decrement as of the last evaluation date, less insurance premiums paid on the Contracts on such Member's life and less his allocated share of charges and expenses of the Trust Fund. Payment of the proceeds of Contracts issued on his life as a death benefit shall be made in equal monthly, quarterly, semiannually or annual installments, in the sole discretion of the Trustees, over a period of ten (10) years after the death of a Member who died on or prior to his fifty-fifth (55th) birthday, or over a period of five (5) years after the death of a Member who died after his fifty-fifth (55th) birthday, provided that the amount of each such payment is at least Twenty-Five ($25.00) Dollars."

Minutes of the trustees' meetings show, however, that payments were not actually made on the above basis. Although section 3.17 indicated that the benefit, exclusive of the benefit stemming from the insurance contract, was to be based on the member's net account, the Plan actually made such payments during the first 16 months at amounts equal to the contributions made on the member's behalf.

Furthermore, the trustees allowed beneficiaries to elect to receive the death benefits in single-sum payments instead of installment payments. In such cases, the trustees paid only the discounted value of the installments, although the rules and regulations did not specifically authorize this practice. (See p. 18.)

PAYMENTS TO MEMBERS UPON TERMINATION OF PLAN

Section 6.02 of the rules and regulations indicated that, upon termination of the Plan (or complete discontinuance of contributions), the members would receive their share accounts and the insurance policies on their lives. There was no guarantee that the members would receive at least the return of contributions on their behalf if the Plan were terminated.

AMOUNTS OF LIFE INSURANCE PURCHASED BY PLAN

The face amounts of the insurance policies purchased on the life of a member during the first and second Plan years were determined (subject to specified minimums) by multiplying the employer's weekly contribution by 50 and then by the number of years between the member's age and age 65. Under this formula, the following amounts of insurance were purchased for members of the ages indicated who entered the Plan during the second Plan year when the contribution rate was $30 per week.

Employee	Face-amount of insurance
A (age 25)	$60,000
B (age 40)	37,500
C (age 55)	15,000

If insurance were to have been purchased on the same basis during the third Plan year, the insurance amounts for a member entering the Plan then would have been as follows:

Employee	Face amount of insurance
A (age 25)	$80,000
B (age 40)	50,000
C (age 55)	20,000

The premiums for the insurance purchased during the first 2 Plan years were slightly less than one-half of the contributions made to the Plan by the employers.

CHAPTER 2

INSURANCE ASPECTS OF THE PLAN

The Plan, as initially adopted by the trustees, provided that a life insurance policy (or policies) was to be purchased on the life of each member. Ordinary level-premium life insurance policies were purchased during the first Plan year (December 1, 1970, through November 30, 1971) from The Executive Life Insurance Company of New York and during the second year (December 1, 1971, through November 30, 1972) from Trans World Life Insurance Company of New York. As of March 1973, trustees had decided not to continue these insurance arrangements for the third and subsequent years. (See ch. 5.)

Aspects of the insurance coverage purchased by the trustees during the first 2 years which may interest the Subcommittee in its investigation are

--the Plan's use of individual insurance policies rather than a less expensive group policy,

--the Plan's naming itself as beneficiary of the policies, and

--the trustees' practice of not paying members' beneficiaries the full proceeds of the policies purchased on members' lives.

PURCHASE OF INDIVIDUAL INSURANCE POLICIES-- OF QUESTIONABLE BENEFIT TO MEMBERS

The policies purchased during the first 2 years of the Plan were treated as ordinary or individual insurance to determine commissions payable to insurance agents and to comply with State regulations; however, many characteristics of the insurance and its handling resembled group insurance.

According to officials of the New York Insurance Department, using individual policies instead of a group policy for a union-management welfare or pension fund the size of Local 295 is unusual and results in substantially higher insurance costs.

Group insurance is more appropriate for Plan

The Plan had the following characteristics which generally indicate situations where group insurance principles would apply instead of individual insurance.

--Insurance coverage was purchased on a mass basis for a group of persons with common characteristics (Local 295 group).

--Insurance coverage was provided without the usual evidence of individual insurability (such as medical examinations).

--The amount of insurance available to a member was determined by a formula which applied to all members of the group and precluded individual selection.

--The Plan trustees, rather than the insured persons, were the owners of the policies.

--The insurance companies handled sales and billings on a bulk basis.

--The trustees paid premiums from funds contributed by the employers of the insured persons.

Although individual whole-life policies generally provide several advantages to the insured which are not provided by group insurance, it is significant to note that the major advantages discussed below had little relevance to the Plan in which the policies were held by the trustees rather than the insured.

Plan members had no freedom to choose the plan or insurance amount or to tailor the coverage to their specific needs. Premiums were paid from employers' contributions for a large group of members; therefore, the level-premium feature provided no significant advantage for the individuals.

The cash-value feature of whole-life policies provided no advantage to a member. He could only use the cash value when he terminated, and if he chose to continue the policy he would have to purchase the policy from the trustees.

Furthermore, the policies had little or no cash value during the early years, depending on the member's age at issue. For example, the policies for an inception member, aged 24, who terminates 3 years later, would have no cash value even though the Plan would have expended about $2,000 in premiums for the policies.

The net result is that, as far as the Plan and its members are concerned, the ordinary whole-life policies purchased by the Plan had the disadvantage of higher cost but not the advantages which usually accrue to these policies.

Comparison of commission rates of individual and group policies

The Plan's use of ordinary level-premium life insurance policies provided the basis for the payment by the insurance companies of much higher agents' commissions than would have been paid if group life insurance had been used.

We estimate that, during the Plan's first 2 years, compensation payable to the insurance agents on the ordinary life insurance policies purchased by the Plan was about $800,000. In comparison, we estimate that commissions would have been only about $10,000 if the same amount of insurance had been provided under a group term policy and the commissions had been based on the high scale of the range of the National Association of Insurance Commissioners' (NAIC) Code of Ethical Practices with Respect to the Insuring of the Benefits of Union or Union-Management Welfare and Pension Funds (the Code of Ethical Practices).

NAIC adopted the Code of Ethical Practices in December 1957. It was intended to complement State insurance laws and to be a declaration of applicable principles in the proper conduct of insuring benefits of welfare and pension funds. The code includes a range of insurance commission rates which are considered reasonable for specified volumes of premiums.

As shown in the table below, the rates of commissions payable to agents on individual policies by Executive Life and Trans World Life are substantially greater than the high scale of the acceptable range adopted for group insurance commissions by the NAIC in its Code of Ethical Practices.

The rates are also significantly higher than the rates of Trans World Life for group policies.

Commission Rates--Percent of Premiums

	Years of insurance			
	1	2	3 to 4	5 to 10
Individual policies:				
Executive Life	50.0	12.5	7.5	7.5
Trans World Life	89.9	10.0	10.0	7.5
Group polices (note a):				
Trans World Life	5.26	1.81	1.81	1.81
Code of Ethical Practices (high)	1.49	1.49	1.49	1.49

[a]Based on Plan's premium level of $10,000 during first Plan year.

The rates shown include commissions and other compensation for both agents and general agents. Because the commission scale in the Code of Ethical Practices provides only for agents' commission, we increased the commission rate by 25 percent, an estimate of the compensation usually received by general agents. The Trans World Life rate for the first year for individual policies includes an agency development allowance of 34.9 percent of the first year's premium.

On the basis of a similar comparsion, the Welfare Bureau of the New York Insurance Department criticized the commissions payable on the insurance purchased by the Plan as being unconscionable.

The Code of Ethical Practices commission scale covers the the sale of group contracts, the form of coverage commonly used by union-management welfare and pension funds. Although Executive Life resisted the applicability of the commission scale of the Code of Ethical Practices to individual policies purchased by the Plan, the New York State Insurance Department officials believed that individual policy commission rates were not applicable to a pension or welfare plan which involved the sale of several thousands of policies through an agreement with a group of trustees and that group commission rates should have applied. As of December 1972, this matter was still being disputed.

71-542 O - 76 - 6

To illustrate the relative levels of agency compensation on the sale of individual policies versus group term polices, we estimated the commissions which would have been payable during a 10-year period on two blocks of insurance purchased during the first 2 years of the Plan. A block of insurance, for this illustration, is the insurance purchased in either of the first 2 years of the Plan plus replacements after issue sufficient to maintain a constant total amount of insurance in force. In other words, for each termination or death there is a corresponding new entrant.

We considered the first year of each block to be newly issued in calculating group commissions. Estimates were developed as though each of the particular companies involved were actually providing the entire insurance coverage for the Plan.

We estimated the commissions payable based on two assumptions regarding member turnover.

--There would be no terminations. This assumption is unrealistic but illustrates, simply, the differences in the amount of commissions payable on individual and group insurance.

--Ten percent of the members would terminate each year and be replaced by new members.

The premium level used in the first illustration of the table (two blocks of $510,000) is approximately the amount of premiums which the plan paid on the individual policies purchased during the 2 years. The lower premium level is an estimate of what the premiums on the same amount of insurance coverage would have been during the first policy year if a group term insurance policy had been purchased. Our estimate of $125,000 is based on the statutory minimum first-year premium for companies doing business in New York State. The minimum, prescribed by law, is designed to sufficiently cover most groups.

Estimates of Commissions Payable to Insurance Agency
During First 10 Years of Plan

	Individual policies' rates		Group insurance rates	
	Executive Life	Trans World Life	Trans World Life	Code of Ethical Practices
	(000 omitted)			
On two blocks of insurance involving premiums of $510,000 each:				
Assuming no employee termination	$1,211	$1,644	$211	$144
Assuming 10% employee severance and replacement by new employees	1,609	2,385	211	144
On two blocks of insurance involving premiums of $125,000 each			93	64

The above table shows the difference between insurance commissions payable on group and individual policies generally. It should be noted that group insurance commissions are not affected by member turnover.

Investigations of agency compensation rates by New York Insurance Department

New York Insurance Department officials said the Department investigated rates of compensation payable by Executive Life and by Trans World Life on Plan policies in December 1972.

Executive Life

The master general agents agreement of Executive Life provides for a persistency bonus in addition to its regular scale of commissions payable to general agents for renewal policies. The persistency bonus was to be a payment of 12.5 percent of the premimum for the second year of insurance, 17.5 percent for the third and fourth years, and 7.5 percent for the fifth through tenth years.

The Assistant Chief of the Life Bureau of the New York Insurance Department notified Executive Life on November 16, 1971, that the renewal commissions plus the persistency bonus were in excess of the section 213 maximum, that the company should be guided by that opinion, and that any payments made not in accordance with the opinion would constitute willful violations of the insurance law of the State of New York.

New York Insurance Department officials in December 1972 said they understood that Executive Life was not paying the persistency bonus.

Trans World Life

The New York Insurance Department was investigating whether the insurance agency qualifies for the agency development allowance paid by Trans World Life to supplement its commission scale. The allowance is 63.5 percent of the first-year commission which, in turn, is 55 percent of the first-year premium; therefore, the combined first-year commission and agency development allowance is almost 90 percent of the first-year premium.

New York law allows such an agency development allowance to supplement the maximum scale prescribed in section 213 in the case of new general agents who are establishing and developing an agency organization. A general agent with prior

service as a general agent or agency manager with any life insurance company or companies must have less than 5 years of total service to be considered a new general agent.

The New York Insurance Department was also investigating why the regular commission scale of Trans World Life was used on Plan policies even though the guaranteed-issue principle was used for these policies. The general agent's contract with Trans World Life provides for paying a commission scale lower than the regular scale when policies are issued on the guaranteed-issue basis. Such policies are issued regardless of the applicant's state of health and therefore are subject to a higher rate of mortality than regularly underwritten policies. One way the companies have to offset this extra mortality is to pay the agent a lower amount of commission for guaranteed-issue policies.

PLAN WAS NAMED AS BENEFICIARY OF INSURANCE POLICIES

The insurance policies purchased from both Trans World Life and Executive Life on the life of each member were issued to Plan trustees, and named the Plan as the beneficiary and owner. The trustees therefore received the proceeds from the insurance upon a member's death. Furthermore, the trustees required that, if a member terminated for reasons other than death and chose to own the policy, he would have to purchase the policy from the trustees for the cash value.

Executive Life Policies were issued on the basis of an application for each policy signed by an agent of the trustees. The policies were issued without a consent agreement or an application signed by the insured persons.

The New York Insurance Department questioned the legality of this procedure. The Department cited Executive Life on February 9, 1972, for violating section 146(3) of New York Insurance Law because the applications did not contain the signed consent of the insured. New York Insurance Department officials advised us in December 1972 that hearings had been held on this citation but that the Department had made no decision.

DISCOUNTING PRACTICE

The administrator discounted the proceeds on life insurance policies when a member's beneficiary elected to receive a lump-sum payment rather than installment payments, and the trustees accepted this practice. The rules and regulations did not specifically authorize this practice. Furthermore, insurance notices issued to members did not state that the face amount of insurance would be paid in installments over a period of years or that the amount payable to the member's beneficiary at death would be the discounted value of such installments.

A list of death-claim payments made by the Plan from its inception through March 31, 1972, shows that each beneficiary elected to receive a lump-sum payment and that the payments were discounted.

The discount was computed on the basis of interest at the rate of 6 percent per year, compounded annually, with the first payment becoming due 1 year after death and with annual payments thereafter. This rate reduced the face amounts of insurance payable by 26.4 percent if death occurred on or before age 55 and by 15.8 percent if death occurred after age 55.

In monetary terms, for each $1,000 of death benefits the life insurance company paid to the Plan when a member died on or before age 55, the member's beneficiary was paid $736 and the Plan retained $264. If death occurred after age 55, $842 was paid to the member's beneficiary and $158 was retained by the Plan.

The booklet titled, "Your Severance Bonus Plan," which was intended to advise members of the benefits to which they were entitled, did not disclose that insurance proceeds were supposed to be paid in installments and that part of the proceeds would be retained by the Plan if a single-sum payment was made. The booklet states that certificates would be issued to members telling them what their insurance benefits would be in each case. As indicated above, however, the amount shown on the insurance certificate was the face amount of the insurance which was paid to the Plan rather than the amount payable to the member's beneficiary when a single-sum payment was elected.

- - - -

The trustees of an employee welfare fund are responsible in a fiduciary capacity for all money, property, or other assets which they receive, manage, disburse, or direct according to section 37-L of the New York Insurance Law. We question how effectively the trustees have carried out their fiduciary responsibilities.

CHAPTER 3

WAS THE PLAN PROPERLY FUNDED?

A test commonly used for determining the soundness of the financing of an employee benefit plan (such as the Local 295 Plan), is simply to determine whether the plan will be able to pay the benefits, provided under its terms in the future, assuming that the plan will not be modified. To pass this test, the plan's present value of expected future receipts, together with its existing assets, must equal or exceed the present value of benefits and expenses expected to be paid in the future. In addition, at no point in the future should the fund's cash position be projected as negative.

Applying the above criteria to the Plan, as it operated during the first 16 months, our calculations show that if the Plan were to have been terminated at November 30, 1973, the expiration date of the present union-management agreements:

--The Plan could not have been expected to have sufficient assets to pay benefits as they were determined during the first 16 months or to pay such benefits immediately upon its termination because earnings during the first 3 years would not have been sufficient to offset the expenditures made for insurance premiums, administrative expenses and benefit payments.

--It would have taken from 15 to 20 years before the Plan's earnings would have put it, if terminated, in the position to immediately pay termination benefits (contributions made on member's behalf, subject to forfeiture conditions for noninception members).

Although our projections based on the assumptions stated on pages 21 to 22 indicate that, if the Plan had been continued, it should have been in a position to pay benefits (as determined during the first 16 months of the Plan) as members terminated, we feel constrained to point out the following reservations.

--The soundness of projections is dependent on how closely the assumptions predict future experience. Our assumptions regarding termination rates are based on data covering a relatively short period--about 7 months--and therefore would have been subject to greater uncertainty than usual for such projections.

--Plan documents were loosely worded and contradictory in some respects and our interpretations of Plan provisions were based largely on the actions of the trustees during the first year of the Plan's operation.

--Future economic conditions can strongly affect the Plan's financial condition. For example, employers may not be able to continue the work force at the present level or to continue to make contributions at the specified rate.

Our projections and comments should be considered in the light of these reservations.

ASSUMPTIONS UNDERLYING OUR PROJECTIONS

To project the monetary effect of transactions which could have been expected to take place in the future, it was necessary to make the following assumptions about the Plan's operations.

Date of valuation--December 1, 1970, the date the Plan became operational.

Number of members--An estimated 1,332, inception members. It was assumed that Plan membership would be maintained at this level.

Ages of members--The age distribution of new members is assumed to be identical to the distribution of ages of inception members.

Employer contribution (per member)--$15 per week during the first Plan year, $30 per week during the second year, and $40 per week during the third and subsequent years.

Mortality rate--1960 Commissioners Standard Group Mortality Table.

Interest earnings--5 percent per annum.

Insurance premium rates--Rates charged the Plan by Executive Life.

Cash value of policies--Estimates based on whole life policies issued on Plan members by Executive Life.

Face amounts of insurance policies--Based on the coverage described on pages 8 to 9.

Administrative expenses--Estimates were developed based on the actual expenses incurred by the Plan during its first year of operation. (See pages 37 to 38.)

Rates of terminations--On the basis of experience during the first 7 months of operation, estimates were developed of the rate at which members would terminate from the Plan. Because the data available on the Plan's termination experience was extremely limited, we developed two sets of termination rates. Scale A assumes a higher rate of termination which would be unfavorable to the Plan because early terminations of inception members (except perhaps by death) will result in Plan losses. Scale B assumes a lower rate of terminations and therefore presents a less conservative view of the Plan's financial position. (Termination rates used are detailed in Appendix II.)

Benefits--Our projections assume that payments will continue to be made on the same basis as during the first 16 months of the Plan.

FINANCIAL PROJECTIONS

The following aspects of the Plan's benefit structure are significant in understanding the results of our financial projections.

--The Plan would have incurred a loss when an inception member terminated (for reasons other than death), during its first few years because the member would have received a return of gross contributions made on his behalf even though about half of these contributions would have been applied to insurance premiums and administrative costs. This deficit would eventually have been negated in later years when the Plan's earnings on investments plus the cash value of the insurance policies and the discount on death claims were built to an amount sufficient to offset the insurance and administrative costs.

--The Plan would have gained when noninception members terminated during the first few years of membership in the Plan because the vesting provisions did not provide the member a full return of the employers' contributions until the member had been covered by the Plan for 5 years or more. Also, contributions began at least 6 months before an insurance policy was issued on a member's life.

Projection of assets and liabilities

The following tabulation compares the liabilities and assets projected for the Plan through November 30, 1989. This projection was based on the assumption that member terminations would be at the rate envisioned in scale A, and therefore the projection was conservative.

Projected Assets and Liabilities

As of November 30,	Assets	Liabilities	Percent of liabilities funded
	(000 omitted)		
1971	$ 400	$ 900	44
1972	1,300	2,400	54
1973	2,600	4,200	62
1974	4,000	5,800	69
1975	5,500	7,300	75
1976	6,900	8,800	79
1977	8,200	10,100	81
1978	9,400	11,300	83
1979	10,500	12,300	85
1980	11,400	13,300	86
1981	12,300	14,100	87
1982	13,200	14,900	89
1983	14,000	15,600	90
1984	14,800	16,200	92
1985	15,600	16,700	93
1986	16,400	17,300	95
1987	17,300	17,800	97
1988	18,300	18,300	100
1989	19,400	18,900	103

Assets are comprised of cash, investments, and cash values of the life insurance policies. The liabilities are equal to the gross contributions made on behalf of active members (with the appropriate vesting percentages applied to the contributions for noninception members).

As shown above, the Plan's liabilities could not have been considered fully funded until after the Plan had operated for about 20 years. Had it been terminated before that time, the Plan probably would not have had assets sufficient to immediately pay the termination benefits as they were determined during the first 16 months of the Plan.

Projections of contributions and expenses

The following table shows the estimates of net gains or losses from Plan operations for the two classes of

benefits with the two termination scales. The present value of contributions, benefit payments, and other costs are shown here as percentages of employer contributions.

	If members were to receive			
	Inception benefits and terminate as in		Noninception benefits and terminate as in	
	Scale A	Scale B	Scale A	Scale B
Employer contributions	100%	100%	100%	100%
Expenses:				
Benefit payments to members	83	79	73	72
Insurance costs (premiums less benefits)	12	13	13	13
Administrative	5	5	5	5
Other	2	2	2	2
Total expenses	102	99	93	92
Net gain or loss	-2	1	7	8

The first 2 columns in the table show the projected results as if only the 1,332 members included in the November 1971 census were to be covered by the Plan. They assume that no new members would be brought into the Plan and therefore that contributions would not be forfeited, which would happen if noninception members would terminate during the first 5 years of coverage. Therefore, the results shown in the first two columns represent the most conservative estimate of the Plan's operations.

In actual practice, it would have been expected that as inception members terminated, new members would have been brought into the Plan. As new members were admitted, of whom a portion could have been expected to terminate with little coverage, the Plan would have gained financially. The bottom line of the table indicates the effect on the financial position of the Plan if allowance is made for some of the members to have terminated before completing 5 years of membership thereby forfeiting all or a portion of the contributions made on their behalf.

From the analysis presented above it appears that, if inception members who would have terminated were replaced by new members, the ultimate gain to the Plan should have more than offset losses from terminating inception members.

Cash-flow projections

The cash-flow analysis shown below was made to determine if the Plan would have had enough cash to pay benefits as members terminated. Cash-flow projections over the first 11 years indicated that the Plan should have had a sufficient cash flow.

Year ending November 30	Contributions and earnings	Benefit payments, insurance premiums, and other expenses	Balance--cash and invested assets (note a)
	(000 omitted)		
1971	$1,100	$ 700	$ 400
1972	2,200	1,300	1,300
1973	2,900	1,800	2,400
1974	3,000	2,000	3,300
1975	3,100	2,200	4,200
1976	3,200	2,400	5,000
1977	3,300	2,600	5,700
1978	3,400	2,700	6,300
1979	3,400	2,900	6,900
1980	3,500	3,000	7,400
1981	3,500	3,100	7,800

[a]Excludes cash values of insurance policies.

ACTUARIAL STUDY BY LAWRENCE R. SCHIFF ASSOCIATES

In June 1971, Lawrence R. Schiff Associates submitted to Fringe Programs, Inc., an actuarial study of the Plan's operation which projected (1) the Plan's income, expenses, and cash position for each year through November 30, 1981, and (2) the Plan's assets and liabilities as of December 1, for each year through 1981. The Schiff study showed that

--the Plan could have maintained a satisfactory cash-flow position through November 1981 and

--the Plan's assets would have become equal to its liabilities during the year beginning December 1, 1979.

The results of the Schiff projections presented a somewhat more favorable picture of the Plan than our study did. The actual experience of the Plan during its first year of operation had a significant impact on the assumptions made for our projections. Some of the significant differences in assumptions follow.

1. Schiff assumed that death benefits would be paid in annual installments over a 10-year period as provided for in Plan documents. Because all claims during the first Plan year were actually being paid on a lump-sum basis (discounted at 6 percent per year), our projections are based on the assumption that this practice would have continued.

2. Schiff assumed that death-benefit payments would include gross contributions made on behalf of the member, less the cost of his insurance policy. During the first year of the Plan, this was not the practice. Our computations assumed that the practice of returning gross contributions would be continued.

3. Schiff apparently did not include any expenses for rent and for legal, auditing, or clerical services. Our projections are based on the assumption that such expenses would have been about 2 percent of the employers' contributions as was the case during the first Plan year.

4. Schiff assumed a 6-percent return on the Plan's investments. Our projection anticipates a 5-percent return. The only interest-bearing assets held by the Plan during the first year were savings accounts.

5. Schiff used termination rates of 15 percent for members below age 35 and 10 percent for members aged 35 and above. Our projections used graduated rates varying by attained ages.

CHAPTER 4

DID THE PLAN ADEQUATELY INURE TO THE BENEFIT OF THE MEMBERS?

In our opinion, the benefits provided to the members would not have been commensurate with the costs of the Plan. Using data published by the New York Insurance Department on jointly administered welfare and pension plans, we conclude that a plan the size of the Local 295 should return--in terms of present values--benefits to employees of about 95 percent of the contributions made to the Plan. By contrast, our analysis showed that the Plan would have returned only between 72 and 83 percent of the employer contributions based on present values.

In our opinion, Plan trustees made a number of highly questionable decisions regarding the Plan and its administration. The trustees provided a form of life insurance as part of the benefit package which was much more costly than that normally obtained for a plan of this size. As a result, substantial portions of the funds contributed to the Plan by the employers were applied to insurance commissions that could have been applied to employee benefits if group insurance had been obtained.

Also, the administrative costs incurred by the trustees and the contractor employed to administer the Plan were considerably above the average costs for a plan of this type.

COMPARATIVE FINANCIAL RESULTS FOR TERMINATING MEMBERS

The table below compares the present values of the contributions made by employers with the benefit payments that were expected to have been made to members under the Plan. The results are stated as percentages of the contributions and are based on the assumptions described on pages 21 and 22.

Using these assumptions, the present values of future benefits and future contributions were calculated (as of the valuation date) for the inception members. In determining the present values the assumption was made that no member

71-542 O - 76 - 7

would continue employment after age 65. The same procedures were followed in securing figures for noninception members. However, the inception members were assumed to receive the some benefits as noninception members.

	If inception members were to receive			
	Inception benefits and terminate as in		Noninception benefits and terminate as in	
	Scale A	Scale B	Scale A	Scale B
Contributions	100%	100%	100%	100%
Member benefits	83	79	73	72
Loss to members	17	21	27	28

The loss to members is merely the difference in the present value of what is paid on their behalf and what they receive. The difference is the result of (1) the insurance premiums having a greater present value than expected insurance benefits and (2) the administrative expenses incurred by the Plan.

The comparison in the table below is made as if (1) employer contributions continued at $40 per week and (2) the employee benefit structure were not changed. While this comparison shows that benefits to members vary between 72 and 83 percent of employer contributions, consideration must also be given to the ultimate gain or loss to the Plan.

Our projections of contributions and expenses showed that the ultimate effect on the Plan--stated as percentages of contributions--would be as follows:

	If inception members were to receive			
	Inception benefits and terminate as in		Noninception benefits and terminate as in	
	Scale A	Scale B	Scale A	Scale B
Net gain or loss from operations	-2%	1%	7%	8%

In the normal plan it would be expected that, in the long run, either the benefit structure or the employer contribution rate would be adjusted to compensate for the gains or losses from operations.

ALTERNATIVE METHODS OF FINANCING PLAN

As previously discussed in Chapter 2, the trustees purchased individual whole-life insurance policies for Local 295 members. For a plan this size, we believe that other less expensive methods of providing benefits to members would have been more appropriate. Although it is not feasible to show a full cost-benefit analysis of alternative financing procedures which could have been used by the Plan, a brief discussion of the following alternative methods is presented.

--Retention of all contributions for severance benefits.

--Group term insurance with a separate investment fund.

--Self-insurance.

--Group permanent insurance with a separate investment fund.

Retention of all contributions for severance benefits

The collective bargaining agreement provides for a severance trust fund but does not require that any form of life insurance coverage be provided. All contributions, after deducting expenses, could have been retained and invested by the trustees, and eventually used to pay severance benefits.

The following table demonstrates the benefits that could be provided by such a plan for a 25-year-old inception employee and compares those benefits with the value of benefits provided under the original plan. The mortality rate and interest assumptions are the same as those of our previous calculations--1960 Commissioners Standard Group Mortality Table and 5-percent interest compounded annually. The table shows that retaining all contributions for severance benefits would produce greater termination benefits to a terminating member than the original benefit structure, if he remained in the Plan for more than 4 years.

End of year	Accumulated contributions with interest less expenses (note a)	Accumulated contributions without interest plus insurance coverage value
1	$ 773	$ 830
2	2,382	2,492
3	4,603	4,712
4	6,935	6,941
5	9,384	9,179
6	11,955	11,427
7	14,655	13,686
8	17,490	15,958
9	20,467	18,245
10	23,592	20,548
11	26,873	22,870
12	30,318	25,214
13	33,936	27,583
14	37,735	29,980
15	41,724	32,408
16	45,913	34,871

[a]Includes an allowance for administrative expenses of $25 per year which is the average for plans in New York.

Although the table only compares the benefits for an inception member who joined the Plan at age 25, it would also apply to other age groups. Generally, the member would get greater benefits under the original plan during the first few years but as time would pass the benefits under the noninsurance plan would become better.

We noted that Local 295 members had already been provided life insurance coverage under their Group Welfare Plan. In our opinion, if additional life insurance were considered desirable, it would have been more logical to provide it through the Group Welfare Plan.

Group term insurance with a separate investment fund

Another alternative to the original funding would be to separate the insurance element from the benefits payable upon severance for a reason other than death. This basic

alternative has several variations, but one method would be to approximate the benefits offered by the Plan with a combination of group term life insurance and a money purchase pension plan (i.e., a pension in which employer contributions were allocated with respect to specific members and the benefits are the amounts which can be provided by these allocated contributions).

The beneficiary named by the member would receive a death benefit directly from the insurance company. This arrangement would be a distinct improvement over the original procedure whereby the Plan was named as beneficiary of the insurance policies and the trustees retained a portion of the death claim proceeds. Under new arrangements, the member's beneficiary would receive the benefit of the total insurance for which premiums had been paid rather than a discounted value, as was the original policy. (See p. 18.)

Premiums on group term insurance would be considerably less expensive and therefore a considerably larger amount could be put in the member's share accounts. The accounts should be considerably larger than the current share accounts and insurance cash values, and should eventually exceed the contributions for an individual. How long it would take for an account to exceed the contributions depends on actuarial experience and the member's age.

Adjustments to the benefit structure for combining group term insurance and a separate pension plan could be made which might further improve the plan. The current practice of paying terminating inception members a refund of contributions made on their behalf, could be changed thereby assuring solvency (i.e., assets sufficient to pay all termination benefits). Therefore, payments to terminating members would not be detrimental to the share accounts of other members.

Under this alternative, individual whole-life policies on which the member can continue premiums would not be provided. However, New York Insurance Law guarantees him the right to convert his group term insurance to a whole-life policy. Our analyses show that, continuing a policy by buying it for the cash value or getting a new policy for the regular premium, are both about equal in value.

The amount of insurance coverage could be set on a more logical basis (e.g., fixed amounts for all members).

Self-insurance

If the Plan were self-insured, the trustees would pay no premiums to insurance companies, but they would be responsible for paying claims directly from Plan moneys. It would be necessary for the Plan to make an actuarial analysis to determine the level of benefits that could be paid. Since contributions are much greater than expected death benefits, the Plan appears to be in an excellent position to withstand possible variations in mortality rates.

Our analyses show that the Plan's financial position would be substantially improved if self-insurance procedures were adopted. Working from the same set of assumptions as those presented on pages 21 and 22 with one exception--the administrative cost of self-insurance is assumed to be $25 per member per year--we projected the results of the Plan's operations under self-insurance, as follows.

	If members were to receive			
	Inception benefits and terminate as in		Noninception benefits and terminate as in	
	Scale A	Scale B	Scale A	Scale B
Employer contributions	100%	100%	100%	100%
Benefits to members	83	79	73	72
Administrative expenses	1	1	1	1
Net gain from operations	16	20	26	27

These gains under self-insurance would save the Plan about 18 percent of contributions with which to increase benefits, reduce contributions, or both. In addition to the greater risk involved under self-insurance, the main disadvantage would be the difficulty in permitting members to continue insurance after severance.

Group permanent insurance with separate investment fund

Another modification that is possible which would not change the Plan as radically as some of the other alternatives would be to use a level-premium group permanent contract with a separate investment fund. Under level-premium group permanent plans, a level premium is determined for each participant using such forms of insurance as life paid up at 65, endowment, or whole life. Therefore, substituting a group permanent contract for individual whole-life policies would not affect many features of the Plan. The same form of insurance (whole life) could be provided, and the trustees could return contributions without interest in accordance with current practice. The size of the separate investment fund would be increased if the insurance premiums are reduced. A reduction in insurance premiums is likely because expenses (commission and other) would be substantially reduced, and mortality rates would be unaffected. The larger the membership turnover of Local 295, the larger would be the expense savings. Even a small savings in premium could have had a far-reaching effect on the status of the fund.

HIGH ADMINISTRATIVE COSTS INCURRED BY PLAN

The Plan's administrative costs for the first Plan year (December 1, 1970, through November 30, 1971) were $125,381, of which $86,877 represented charges of the former Plan administrator.

The $86,877 fee payable to the former administrator represented an annual cost of about $65 per member. This cost was substantially greater than the estimate of $0.94 per member a month ($11.28 per year) made by a representative of the former administrator during the January 21, 1971, Board of Trustees meeting.

Although there was no formal agreement between the trustees and former administrator, the invoice from the former administrator dated January 10, 1972, addressed to the trustees, attached a memorandum which gave the following formula for determining the fee payable to the administrator, based on employer contributions:

Fee (percentage)	Employer contributions	
10	First	$ 100,000
9	next	150,000
8	next	250,000
7	next	500,000
6	next	1,000,000
5	all above	2,000,000

In addition to the fee determined through this formula, a charge of $0.40 was made for each item of mail out, returned mail, termination, beneficiary change, employer change, address change, name change, and etc. The total charge of $86,877 was made up of $80,893, determined on the percentage-fee basis, and $5,984, determined on the per item charge.

The Plan's financial report shows that other operating costs of $38,504 were incurred in the first year, in addition to the costs paid to the former administrator. These costs increased the Plan's total administrative costs to $125,381 and the costs per member to about $94.

Information provided by the New York State Insurance Department for expenses incurred by New York welfare and pension funds jointly administered by union and management show that administrative costs in 1970 averaged about $25 per member for welfare plans and about $20 per member for pension plans. Comparing these average costs with the Plan's cost shows that the Plan was subject to very heavy administrative charges with costs per member being about four times as great as costs for other funds in New York.

CHAPTER 5

CONCLUSIONS AND COMMENTS ON CHANGES MADE TO THE PLAN IN 1973

The Plan was not originally formulated or administered in the best interest of the members.

--Too small a proportion of the Plan's income was being returned to the members.

--Other funding media existed which would have enabled the trustees to reduce expenses and therefore either pay higher benefits to the members or reduce contributions required from the employers.

It appears that it is the trustees' primary responsibility to insure the interests of the employees and that the trustees did not have sufficient knowledge to design their own plan or to effectively evaluate the plan which was developed for them. In early 1973 the trustees dismissed the administrator and made the following changes in the Plan.

--Of the $40 weekly contributions to be made by the employers for each member, only $4 will be applied to life insurance. A separate insurance fund was established. The balance, or $36, will go into a fund for paying severance benefits. The severance benefits are basically unchanged although the more economical funding medium will presumably allow larger severance benefits based on the share accounts in the future.

--A single group term insurance contract, effective March 1, 1973, was purchased and the individual whole-life policies were dropped.

--Under the group insurance policy, each member is covered for $30,000 plus accidental death and dismemberment.

--No agent or broker was involved in the purchase of the group term insurance policy, thereby eliminating

the large-scale commissions of individual whole life policies.

--The proceeds of the insurance will go directly to the deceased member's beneficiary without discounting.

We believe that these changes improve the Plan. Although we have not made financial projections of the effects of these recent changes, we believe that they will improve the soundness of the fund and, in the long run, will result in greater benefits to the total membership of the Plan.

CHAPTER 6

SCOPE OF STUDY

Our study included an evaluation of the actuarial soundness of the Plan and of the appropriateness of the funding media used. It was directed primarily to determining if the Plan's funding and benefit provisions were structured in the best interest of the Plan members.

We reviewed available documentation on the Plan and its administration, including:

--The collective bargaining agreement between Local 295 and the several employers of Local 295 members.

--Plan rules and regulations.

--Agreement and declaration of trust establishing the Plan.

--A copy of a booklet describing the Plan and a copy of a leaflet listing questions and answers about the Plan.

--Copies of the minutes of trustees meetings for the period January 1971 to February 1973.

--A report prepared by Lawrence R. Schiff, Associate of the Society of Actuaries, dated June 11, 1971, on the projected cash flow of the Plan's operations for each of the first 11 years from December 1, 1970, to December 1, 1981.

We also interviewed representatives of the former Plan administrator and the New York State Department of Insurance.

Our projections were based on (1) techniques commonly used by actuaries for such projections and (2) the assumptions and data indicated in the appropriate sections of this report.

JOHN L. MCCLELLAN, ARK., CHAIRMAN
HENRY M. JACKSON, WASH.
SAM J. ERVIN, JR., N.C.
EDMUND S. MUSKIE, MAINE
ABRAHAM RIBICOFF, CONN.
FRED R. HARRIS, OKLA.
LEE METCALF, MONT.
JAMES B. ALLEN, ALA.
HUBERT H. HUMPHREY, MINN.
LAWTON CHILES, FLA.
KARL E. MUNDT, S. DAK.
JACOB K. JAVITS, N.Y.
CHARLES H. PERCY, ILL.
EDWARD J. GURNEY, FLA.
CHARLES MCC. MATHIAS, JR., MD.
WILLIAM B. SAXBE, OHIO
WILLIAM V. ROTH, JR., DEL.
BILL BROCK, TENN.

JAMES R. CALLOWAY
CHIEF COUNSEL AND STAFF DIRECTOR

United States Senate

COMMITTEE ON
GOVERNMENT OPERATIONS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS
(PURSUANT TO SEC. 4, S. RES. 21, 92D CONGRESS)
WASHINGTON, D.C. 20510

SUBCOMMITTEE:
JOHN L. MCCLELLAN, ARK., CHAIRMAN
HENRY M. JACKSON, WASH.
SAM J. ERVIN, JR., N.C.
ABRAHAM RIBICOFF, CONN.
JAMES B. ALLEN, ALA.
KARL E. MUNDT, S. DAK.
CHARLES H. PERCY, ILL.
JACOB K. JAVITS, N.Y.
EDWARD J. GURNEY, FLA.

JOHN P. CONSTANDY
CHIEF COUNSEL
PAUL E. KAMERICK
ADMINISTRATIVE ASSISTANT
PHILIP W. MORGAN
CHIEF COUNSEL TO THE MINORITY

December 28, 1971

My dear Mr. Staats:

The Permanent Subcommittee on Investigations is presently conducting a preliminary investigation into labor-management activities with particular regard to a recent concept in employee benefit plans: namely, severance trust plans which are assumed to supplement existing employer group pension plans.

The investigation is presently centered on Teamster Local 295 of New York City, whose 1,300 membership is engaged in the trucking of air freight at John F. Kennedy Airport. We are also concerned in the instant case with the propriety of some of the insurance practices within the severance trust plan.

The inquiry necessarily requires an actuarial study of the Local's severance trust plan to determine whether the plan is properly funded and whether, in fact, the plan adequately inures to the benefit of the rank and file members. These studies require an expertise not available within the Subcommittee staff but which I understand is within the capability of your office.

Accordingly, it is requested that the General Accounting Office assist in this investigation by making such studies and reporting their findings to the Subcommittee. A more detailed description of the Subcommittee's requirements and access to the material upon which they would be predicated will be made available to your representatives by Subcommittee staff members.

In the event the matter is brought to hearings at some future date, it is likely that you would be requested to present testimony of those findings to the Subcommittee.

APPENDIX I

Honorable Elmer B. Staats December 28, 1971

My sincerest thanks to you for your cooperation not only in this request but also for all the past help and cooperation to this Subcommittee.

Sincerely yours,

John L. McClellan
Chairman

Honorable Elmer B. Staats
The Comptroller General
of the United States

APPENDIX II

LISTING OF TERMINATION AND MORTALITY RATES AND AGE DISTRIBUTION USED IN GAO CALCULATIONS

AGE	TERMINATION RATES SCALE A	SCALE B	MORTALITY RATES 1960 CSG	AGE DISTRIBUTION
17	.383	.333	.00190	0
18	.328	.278	.00199	2
19	.277	.227	.00203	13
20	.242	.192	.00209	20
21	.217	.167	.00214	28
22	.202	.152	.00218	42
23	.195	.147	.00221	48
24	.188	.142	.00224	50
25	.182	.137	.00226	52
26	.176	.132	.00228	52
27	.170	.127	.00230	58
28	.164	.122	.00233	51
29	.157	.117	.00236	45
30	.150	.112	.00240	47
31	.143	.107	.00245	43
32	.136	.102	.00251	62
33	.128	.097	.00260	47
34	.121	.092	.00271	47
35	.114	.086	.00285	42
36	.107	.080	.00302	34
37	.100	.075	.00321	31
38	.094	.071	.00345	43
39	.088	.067	.00372	26
40	.083	.063	.00402	37
41	.078	.059	.00437	25
42	.073	.055	.00475	35
43	.073	.055	.00518	29
44	.073	.055	.00564	28
45	.073	.055	.00615	16
46	.073	.055	.00670	31
47	.073	.055	.00731	28
48	.073	.055	.00798	9
49	.073	.055	.00872	22
50	.073	.055	.00952	25
51	.073	.055	.01040	15
52	.073	.055	.01137	22
53	.073	.055	.01244	20
54	.073	.055	.01361	16
55	.073	.055	.01488	16
56	.073	.055	.01624	12
57	.073	.055	.01770	18
58	.073	.055	.01924	10
59	.073	.055	.02087	15
60	.073	.055	.02262	7
61	.073	.055	.02451	5
62	.073	.055	.02660	3
63	.073	.055	.02886	4
64	.073	.055	.03131	1

71-542 O - 76 - 8

APPENDIX VI

STATE OF NEW YORK INSURANCE DEPARTMENT,
WELFARE FUND BUREAU,
New York, N.Y., June 30, 1971.

ROBERT E. DUNNE.
Assistant Counsel U.S. Senate Permanent Subcommittee on Investigations, Federal Building, New York, N.Y.

DEAR MR. DUNNE: Enclosed herewith is a report on the interview with Louis Ostrer held May 18, 1971, together with comments on the benefit plan of the subject trust fund.

Please advise if we may be of further help in this matter.

Very truly yours,

LAWRENCE M. HYMAN,
Supervising Insurance Examiner.
GEORGE PERLA,
Senior Insurance Examiner.

JUNE 25, 1971.

SEVERANCE BENEFIT PLAN OF LOCAL 295 INTERNATIONAL BROTHERHOOD OF TEAMSTERS

On Tuesday, May 18, 1971, at 11:00 A.M. the following individuals met with Mr. Louis Ostrer at his offices at 377 Fifth Avenue, New York, N.Y.:

Robert E. Dunne, Assistant Counsel, United States Senate Committee on Government Operations, Permanent Subcommittee on Investigations, New York, N.Y.

Herbert L. Feay, Assistant Director and Actuary, U.S. General Accounting Office, Washington, D.C.

Lawrence M. Hyman, Supervisory Examiner, Life Bureau, State of New York Insurance Department, New York, N.Y.

George Perla, Senior Insurance Examiner Welfare, Plan Bureau, State of New York Insurance Department, New York, N.Y.

The principal purpose of the meeting was to secure Mr. Ostrer's explanation of the operations of the Severance Benefit Plan of Local 295. This Plan was established for Members of Local 295 as a result of a Collective bargaining agreement between the union and the group of employers for the air freight ground transportation and handling for J. F. Kennedy airport in New York City.

During the course of the interview, Mr. Ostrer explained provisions and operations of the Plan. His explanations about the Plan are summarized in the next section of this Report. The second Section following this introductory statement contains comment on statements and remarks of Mr. Ostrer.

SUMMARY OF EXPLANATIONS OF MR. OSTRER

The Severance Benefit Plan of Local 295 has been submitted to the Internal Revenue Service for approval as a pension plan with an effective date of December 1, 1970. The benefits of this Severance Plan are assumed to supplement the pension benefits of the Local 295 Employer Group Pension Fund which was established in 1952 and which received tax exemption from the Internal Revenue Service.

The first employer payments to the Severance Plan were made in January 1971. This Plan is classified as a pension Plan in accordance with the requirements of IRS for previously approved severance benefits plans granting similar benefits. IRS approval of Local 295 Severance Benefit Plan as a pension plan for income tax purposes is expected.

Fringe Programs, Inc., is the administrator for this Plan. The administrator will receive fees for administering the Plan. The amounts of and the frequency of the fees have not yet been determined and no fees have been paid to date.

Income of the Plan

The employers included in the bargaining agreement must make payments to the Plan for each Union Member employed. The payments are determined as an amount per week for each Member. The payments for each Member are on the bases of $15 per week during the first Plan year, $30 per week during the second Plan year, and $40 per week for the third Plan year. Assuming approximately 1300 Union Members employed on the average for 50 weeks each per year, the

total income from the payments of the employers will be approximately one million dollars in the first year, two million dollars in the second year, and 2.6 million dollars in the third year.

The Plan will have income from that portion of the assets that is invested in interest-bearing securities. It is expected that the funds available for investment will be invested at an average rate of about 7 percent per year compounded annually.

Two other sources of income will be:

(1) Forfeitures of accumulations by Members employed after the effective date of the Plan who terminate before completing five years of covered employment.

(2) Excess of the amounts of insurance collected from the insurance companies over the value of the death benefits paid to beneficiaries.

Disbursements of the Plan

Practically half of the payments by employers will be used to provide insurance. The amount to be used for insurance is 49.98% of the payments on behalf of Members eligible for insurance. This percentage was selected to meet the requirements of IRS that less than half the payments be used to pay insurance premiums.

After receiving payments of death claims from the insurance company, the Plan will disburse death benefit payments to the beneficiaries. Since the value of these death benefit payments is less than the face amount of insurance received from the insurance company, the Plan has a net gain from each claim at the time of death.

Expenses of administration of the Plan (including fees to Fringe Programs, Inc.) will be paid from payments received from the employers.

The amounts of the employer payments after deducting insurance premiums and administrative expenses are to be used to secure high grade bonds (AAA classification) that will have an average investment return of 7% per year compounded annually. Presumably the costs of buying the bonds (including any fees for investment advice) will be taken from the remaining gross income available so that the bonds purchased will represent the net amount available for investment after deduction of initial investment expenses.

Separate memorandum accounts will be maintained for each Member in the Plan showing the employer payments made for him, the amounts paid for insurance premiums, the amounts allocated to the funds for investment, and the interest allowed annually by the Plan Trustees.

Interest allocated to the Member Accounts will be a reduction in the investment income to the Plan from the separate fund. The Plan will have a net gain from investment income if the interest allocated to the individual accounts is less than the interest earned on the invested assets.

When-ever a Union Member is terminated as a participant in the Plan, the payments provided by the Plan are paid to him or to his beneficiary.

Assets of the Plan

The assets of the Plan presumably will be the investments purchased, cash on hand, and the cash values of the insurance policies purchased on the lives of Members.

Liabilities of the Plan

There was no discussion of the determination of liabilities of the Plan except a general statement that the solvency of the Plan had been demonstrated by an actuarial valuation using reasonable standards. Mr. Ostrer did not have any such valuation in his office that he could show us.

Life Insurance

The life insurance purchased on the life of each Member is ordinary level-premium whole-life insurance provided by separate individual policies. The premiums are payable monthly for life. All Members in the working force as of the effective date of the Fund are eligible for insurance as of that date. New Members after this effective date become eligible for insurance on the first quarterly enrollment date following six months of employment for which an employer makes payments to the Plan. The enrollment months are January, April, July and October.

The life insurance granted by the individual whole life policies will be provided on a guaranteed issue underwriting basis without any evidence of insurability. The face amount of insurance for each policy will be level. The amount of coverage will depend on the attained age of the member at the time the policy is issued.

The formula for determining the face amount of insurance for a policy is as follows: Subtract the Member's age at issue date of the policy from 65 and multiply the result by 50 times the weekly contribution made by the employer on behalf of the Member.

The insurance company issuing the individual policies considers that these policies are in a special classification justifying special premium rates. In order to provide the amounts of insurance determined by the Plan formula for a premium allowance of 49.98% of the employer payments to the Plan, the rates in the premium schedule per $1000 of insurance are arbitrarily reduced at issue ages near age 40 years.

Mr. Ostrer stated that the premium rates charged to the plan are approximately 30% below the rates usually charged for individual ordinary policies. The insurance company pays a commission for each policy issued. The life insurance agent is designated by Mr. Ostrer who is the originator of the severance plan. Mr. Ostrer had designated Dina Gelman as both general and soliciting agent. Dina Gelman is Mr. Ostrer's sister. The officers of Fringe Programs, Inc. the severance plan's administrator are Dina Gelman and Jules November, an attorney. We are advised that Dina Gelman is the sole stockholder in Fringe Programs, Inc.

The first year's commission rate is 50% of the premium. There is no addition for an override commission to a general agent, and no expense reimbursement allowance is involved. The agent also receives renewal commissions for nine years and a persistency bonus for the second through tenth years. The rates for these commissions and bonuses which were not specified by Mr. Ostrer are as follows:

[In percent]

Policy year	1st yr	Renewal	Persistency bonus	Total
1st yr	50			50
2d yr		12½	12½	25
3d yr		7½	17½	25
4th yr		7½	17½	25
5th through 10th yr		7½	7½	15

Note: The payment of persistency bonuses does not appear to be legal under the New York statute.

The Severance Plan owns the insurance policies and is the beneficiary for each of the policies. In the event of a death, the insurance company pays the face of the policy to the Plan. The Plan pays out either (1) the face in ten equal annual installments each equivalent to 1/10th of the original face amount paid to the Plan or (2) the single sum discounted value of those payments, if requested by the beneficiary.

Since the present value of the 10 installments whether paid out over the 10 year period or discounted and paid in one sum is less than the face amount of the policy, the Fund retains part of each insurance claim payment as a gain.

Mr. Ostrer gave out copies of premium and cash value tables for group (term and ordinary) insurance as issued by the Manhattan Life Insurance Company. He explained later that the Manhattan had other premium rates and values for insurance to be issued for severance benefit plans. He did not have these special values for a severance plan available in his office.

Life Insurance Company

The life insurance companies issuing the special classifications of individual life insurance policies for use in severance benefit plans are (except for the Manhattan Life of New York) new small companies interested in current volume production. These companies are willing to accept probable losses from poor experience in the future in order to secure a larger total for current amounts of insurance issued and in force. The large and well established old line companies will not consider any part of the life insurance of the severance benefit plans.

The life insurance company for the Plan of Local 295 is the Executive Life Insurance Company of New York in business since 1957 and formerly known as the Citizens Life Insurance Company.

The extra costs to the insurance company of the special classification of policies include (1) the additional death claims from guaranteed issue, (2) the extra death claim costs resulting from anti-selection in the continuance of policies at the time of severance, (3) losses on early lapses before initial expenses are amortized, (4) higher agency renewal compensation, and (5) lack of company experience on which

to base premium rates. Possible areas of savings for these policies include (1) lower costs for first year commissions and expense allowances than for regular individual policies, and (2) lower issue expenses because of elimination of underwriting. The expense gains of the first year will be available at once and the mortality losses of the later years will be deferred to those later years. This appeals to new companies seeking immediate increases in amounts of insurance.

Severance Payments

Upon severance from the Plan after completion of 5 years of Membership, a terminating Member is granted a severance allowance equal to the total employers' payments on behalf of such Member plus interest as allowed annually by the Trustees. The terminating Member can also have the insurance policy (or policies) issued on his life but the cash value of the policy (or policies) is deducted from the withdrawal allowance. If the terminating Member became a Member as of the effective date of the Plan, these provisions apply in the event his termination is at any time including termination in the first 5 years. If the terminating Member became a Member after the effective date of the Plan and his termination date is before the end of 5 years of continuous Membership, there is a forfeiture of part of the accumulated sum otherwise payable. The percentages of value forfeited are as follows:

Forfeiture percentages

End of year of membership:	*Forfeiture percentage*
1	80
2	60
3	40
4	20
5 and over	0

This severance allowance is the amount paid if severance from the Plan is for any reason other than death. If the severance from the Plan is because of the death of the Member while actively employed, this severance allowance is changed as follows:

(1) The total premiums paid for the life insurance policy (without interest) is deducted from the total accumulated payments.

(2) Death benefits are paid to the Member's beneficiary as explained in the topic on life insurance.

COMMENT ON CASE

The Severance Benefit Plan is essentially a combination of deferred compensation and life insurance for the Members of the Union included in the Plan. The Plan provides specific payments to a terminating Member upon his severance from the Plan. No definition of severance is available but apparently termination of employment because of death, retirement, disability or lay-off with an employer making the required payments to the Plan constitutes severance. Mr. Ostrer did not explain what happens when a temporary lay-off occurs because of sickness, lack of work, or leave of absence, but he furnished booklets for two Severance Plans other than the Severance Benefit Plan of Local 295. These booklets explain that the insurance for those Plans will continue for 60 days after commencement of lay-off and that the 30 days grace period on the policy will extend the insurance for another 30 days. There is no explanation of how the Plan pays the premium for the 60 days or of who is responsible for the premium for the additional 30 days.

The booklet of the Airline, Aerospace, and Affiliated Employees Severance Fund contains a provision in regard to reinstatement reading as follows:

"In the event a severed employee returns to work he starts anew as a new entrant into the Plan, unless he desires to reenter the plan on a retroactive basis, by returning the total monies withdrawn as severance to his account."

This provision makes no mention of the life insurance policy. Presumably this policy could be reinstated by the return of the cash value and the payment of past due premiums (with interest on the cash value and on the past due premiums) but there is no indication of who will pay the over due premiums and the interest.

Any temporary termination of contributions by an employer on behalf of a Member could cause substantial problems, especially for the continuance of large premium payments for individual cash value policies.

The severance benefit is provided for a Member who continues in the Plan to his retirement from employment because of age. This is apparently the basis for the IRS classification of a Severance Plan as a pension plan. Since that benefit to

a living Member is a lump sum payment, the classification as a pension plan appears questionable. Pension plans normally provide life annuities after retirement.

The Plan provides additional benefits if severance is caused by death. This provides the justification for buying life insurance.

Funding Method

The employers make the required payments to the Plan and these payments are used for expenses and for funding the benefits of the Plan. The funding method is like that frequently used for small pension plans—a combination of individual level premium life insurance policies and a supplementary fund.

This funding method is the most expensive method of funding a pension plan because of the much larger commissions paid to insurance agents and because of the larger expenses for the individual policies. This method is not used for large pension plans. Instead, the pension benefits of a large pension plan are provided by a group pension plan and the life insurance benefits by a group term life insurance policy. The expense and commission charges for this group procedure are considerably lower than for the individual policy procedure. Furthermore, the group method is more flexible and less subject to funding difficulties if a Member does not work full time during a year because of illness, temporary lay-offs, leave of absence or for any other reason.

If the Severance Plan is to proceed successfully, continuous full employment is essential. In buying individual level premium whole life policies, a fixed commitment is made to pay substantial premiums in the future. These premiums must be paid for each policy if it is to continue in force regardless of whether or not the Member insured continues to work full time.

If an eligible Member has a temporary period of unemployment that terminates his eligibility for the Plan, he receives the Severance Benefits. These benefits will include either the insurance policy on his life or the cash value of that policy. When he returns to work he will be eligible for benefits as a new participant. He will again apply for a new policy unless he returns the cash value of the old policy and pays the overdue premiums all with interest. The Member and the Plan will lose when a new policy is secured. Probably a new policy will be purchased because of inability or of refusal to pay back the money required. The new policy increases costs because the first year costs (including first year commissions to the agent) will again be incurred. The only party that gains from the new policy transaction is the agent who again is paid 50% of a first year premium.

If this Member who loses eligibility and who again becomes eligible kept his old policy when he was terminated and applies for a new policy when he again becomes eligible, he apparently could be insured under two policies. This could produce considerable anti-selection against the insurance company by substandard risks with interrupted periods of continuous employment.

Under a group term policy, the insurance can be terminated during a period of unemployment and then reinstated with only insignificant expenses. Under a group term policy, there are no cash values and first year Commissions are paid only on premiums of the first group policy year. Renewal commissions only (for 9 years) are paid on group premiums collected after the first policy year regardless of whether the participants insured are renewal participants or new participants.

The argument that whole life insurance is better than term insurance simply does not apply to the Severance Plan or to any pension plan. The compulsion for savings for the Severance Plan is that the individual Member must accept a reduction in wages to cover the employer payments on his behalf to the Severance Plan. The question of whether all of the savings in excess of true insurance costs should be accumulated in the separate asset fund or partly in that fund and partly in cash value insurance policies is a decision made entirely by the Trustees of the Plan. The individual Member has nothing to say. His $40 per week goes into the Severance Plan regardless of whether cash value insurance or one year term insurance is purchased to provide the additional death benefits (face amount less reserve) provided by the insurance contracts.

In comparing level premium whole life insurance with one year term insurance, consideration must be given to the fact that the amount of pure insurance for the whole life policy is not the face amount of the policy but is the face amount less the reserve (the net amount at risk). For the same net amounts at risk, the incurred claim payments for individual level premium whole life insurance and for group one year renewable term insurance will be the same for the same group of persons insured. The commissions and expenses for the whole life insurance will be greater for the individual whole life policies. Obviously, the individual

policy procedures, involving the paying of some of the funds to be saved to an insurance company, is the more expensive method of funding. This can be established by an actuarial analysis using reasonable assumptions for the mortality rates, lapse rates and expense rates to be expected for the group.

One of the arguments for funding a small pension plan by use of individual policies is that the individual policy contains settlement options that guarantee the cost of a unit of pension benefit at retirement. This argument does not apply to the Severance Benefit Plan because this Plan does not provide for annuities to the Members. The benefits payable to a Member at Severance for any cause other than death is a lump sum payment payable 90 days after discontinuance of eligible employment. Classification of the Severance Plan as a pension plan seems peculiar under these conditions.

When whole life insurance is used for funding, there are additional expenses involved that are not incurred if group term insurance is used. The State premium taxes are higher for the whole life insurance premiums than for the term insurance premiums because, in effect, premium taxes are paid on that portion of the savings that is included in each whole life policy premium. When whole life insurance is used, the individual insured must include in his taxable income, the one year term premium for the amount at risk for his level premium policy. This is not required for group term insurance.

An insurance company is subject to Federal income taxes, but the trust fund of an IRS approved pension plan is not subject to these taxes.

Administrative expenses are higher for separate whole life policies than for group term insurance. Wholesale and mass handling procedures have been developed for group insurance that result in less expense charges than are incurred for individual policies providing corresponding death benefits.

Commissions

The higher cost of whole life insurance is illustrated by the first year commission rate of 50%. In comparison under group insurance for a case as large as the Severance Plan, the agent's first policy year commission rate would be about 3.5%. The whole life first year commissions are more than 14 times the group first year commissions.

Commissions for years after the first year would also be higher for the whole life plan than for a group plan. For a group policy with the same premium volume as the Severance Plan, the agents renewal commission rate would be less than 2%. The indicated ratio of the commissions for group term insurance is again more than 14 times.

Assuming no new issues and no terminations, the commissions and bonuses for the first three years will equal one year's premium for the whole insurance, according to Mr. Ostrer.

If the total premium for one year remains the same, the group commissions for Plan years after the first will remain the same regardless of the turn over for the individuals insured. For the whole life insurance, this will not be true. When terminating Members with whole life insurance are replaced by new Members with whole life insurance, first year commissions rather than renewal commissions are paid on the premiums of the new Members. The total premiums for all insurance can remain the same, but the higher the turnover rate the greater will be the total commissions paid to the agent for the renewal Years of the Plan.

With total life insurance premiums of $500,000 in the first year, $1,000,000 in the second year, and $1,300,000 in the third year, the Commissions to the agent for the individual whole life insurance policies of Local 295 Severance Benefit Plan will probably equal at least $1,000,000 during the first three years of the Plan.

In contrast, the commissions and allowances payable on the same premium volume under group term coverage should not exceed $75,250 in accordance with the Code of Ethical Practices of the National Association of Insurance Commissioners, calculated as follows:

	Amount	Highest code rate (percent)	Years	Commissions
1st yr premiums	$1,300,000	3.5	1	$45,500
Renewal premiums:				
2d and 3d yr total	1,500,000			
Average per year	750,000	.98	2	14,700
Add: General agency overwriting allowance, estimated at 25 percent				15,050
Total				75,250

The above table is based on the assumption that the same amount of premiums will be paid for group life insurance as for individual insurance. However the amount of life insurance probably will not be increased so that the premiums for group life insurance coverage are likely to be materially less than the premiums for individual life insurance policies. The reductions in agency commissions would therefore be even greater than that indicated by this table if group life insurance were used instead of individual life insurance.

In addition Fringe Programs, Inc., will collect administration fees for which no limits have been established. In this connection Mr. Ostrer was asked to explain how Fringe Programs, Inc. continues to operate without the receipt of fees. He stated that the insurance companies made cash advances against commissions to the insurance agent Dina Gelman. The agent in turn advanced cash to Fringe Programs. Executive Life Insurance Company made cash advances of $200,000 to Dina Gelman. Other insurance companies advanced an additional $215,000 to Dina Gelman who is also the insurance agent for other severance funds.

Amounts of Insurance

The amounts of insurance that will be purchased by approximately half of the payments of $40 per week for 50 weeks in a year are large. The amounts vary from about $95,000 at age 20 at issue to about $30,000 for age 50 for a weekly contribution of $40. These are large sums to be issued on the lives of members of the Teamsters local without regard to the individual needs of each Member for insurance. A married man age 45 with two minor children obviously needs more (not less) insurance than a single man age 25. The amounts of insurance for the Severance Plan are higher because of the apparent desire to pay the maximum amount possible as life insurance premiums on which the agent will collect commissions. The individual Member would have better results if a considerably smaller amount of group term insurance was secured with the same amounts for all Members. The amounts could be $10,000 until attained age 60 and then decreasing thereafter by attained age. The Severance Plan could permit any Member to use part of the amount otherwise accumulated for him to buy individual insurance on a wholesale payment basis. The Severance Benefit accumulation for a Member would not then be used for more expensive whole life insurance without his consent.

Severance Benefits

Mr. Ostrer's explanation of the benefits paid on severance does not agree with the description of "Benefits under the Plan" as included in the booklets distributed by Mr. Ostrer for two other plans:

The following is quoted from these booklets:

"Up to one half of the contribution on behalf of the employee is used to procure insurance which develops cash surrender value in addition to affording the employee an immediate death benefit. The remainder of the contribution is credited to the employees account.

"Upon severance, depending upon length of service, the employee is entitled to take out what has been credited to his account by virtue of the contributions and credited earnings. In addition, he can elect to either take the insurance policy or the cash surrender value of the policy, as is set forth in the rules and regulations of the Severance Trust which governs such take over."

This quotation provides that half of each contribution on behalf of a Member is used to purchase insurance and the other half is deposited to his account. Upon severance, the Member is entitled to take out the parts of the contributions that have been credited to his account plus credited earnings. In addition, he can take the insurance policy or the cash value of the policy.

Obviously the total severance payment under the provisions in this booklet will be considerably less than the amount indicated by Mr. Ostrer. He stated that the terminating Member would receive the return of the entire amount of the contributions made on his behalf plus dividends. He also stated that the Plan would receive the cash value of the insurance policy but that the terminating Member could have the policy if he agreed to the deduction of its cash value from the accumulated total contributions.

In order to determine exactly the benefits, provisions and limitations of Local 295 Severance Benefit Plan, a verified copy of the Plan and Trust Agreement filed with IRS and the Labor Department must be studied

Financial Analysis

In order to determine the financial results for the Plan, a detailed actuarial and accounting analysis and projection must be made for its financial operations.

Such an analysis will include a determination of whether or not the assets of the Plan will be sufficient to cover its liabilities if the Plan continues to function indefinitely and if the Plan is terminated. Without such a study statements regarding the financing of the Severance Benefit Plan are generalizations that are not supported by facts.

The Plan as Beneficiary

The naming of the Plan as beneficiary for the life insurance can be questioned since the Plan retains part of the death benefits. The legality of this Procedure could be questioned on the grounds that the Plan has no insurable interest in the lives of the Members in excess of its obligation to pay death benefits to beneficiaries.

Over a reasonable period of time, the accumulated value of premiums paid for life insurance for a large group of persons will exceed the accumulated value of the death claims and the cash values of the remaining policies because of the expenses and profits of the insurance business. The situation is comparable to betting on all of the horses in a horse race. The purchase by the Plan of excess insurance for expected gain of the Plan cannot be justified on the basis of reasonable principles of insurance and of probability. The principal purpose of buying life insurance to provide the death benefits payable to the beneficiaries is to avoid random fluctuations in total death benefit payments in one year that the Plan would have to absorb if the death benefits were self insured. The gains for the mass purchase of insurance on a large number of lives with benefits payable to one organization are by the insurance agents and maybe the insurance companies.

PROBLEMS FOR STUDY AND ACTION

Study of and possible action on the following problems involving the Severance Plan is recommended:

1. The payments by insurance companies of large advances against first year commissions.
2. The payment of persistency bonuses in place of expense reimbursement allowances. The payment of persistency bonuses does not appear to be legal under the New York statute.
3. Agent's commissions, general agents' override commissions, expense allowances and bonuses provided by agency contracts and actual paid.
4. Determination if the life insurance policies are self-supporting on the basis of reasonable assumptions for the future experience for the separate classification of insurance.
5. Study of the legality of Naming the Plan as a Beneficiary either for all of the insurance or for that part of the insurance in excess of the liability of the Plan to the beneficiaries.
6. The fiduciary responsibility of the Trustees to invest and to spend the employer payments on behalf of the employees to the best advantage of these employees.
7. The administration expense charges to the Plan for expenses of the Trustees and for payments to Fringe Programs, Inc.
8. Audit of the Income, disbursements and assets of the Plan and the determination of the present value of liabilities.
9. The sufficiency of Gross Premiums for the insurance policies as compared with the net premiums used to calculate legal reserves for the insurance.

The views expressed in this memorandum represent the consensus of opinion of those signing below and do not necessarily represent the views of the agencies by which they are employed. The names of these agencies are listed under the signatures for purposes of identification only.

LAWRENCE M. HYMAN,
Supervising Examiner,
State of New York Insurance Department.
GEORGE PERLA,
Senior Examiner,
State of New York Insurance Department.
HERBERT L. FEAY,
Assistant Director and Actuary,
U.S. General Accounting Office.

APPENDIX VII

STATE OF NEW YORK INSURANCE DEPARTMENT,
New York, N.Y., October 4, 1967.

In the Matter of the Applications and/or Licenses of

LOUIS C. OSTRER, SAMUEL SCHEINHAUS, AND SEYMOUR GREENFIELD,
RESPONDENTS

FINDINGS OF FACT CONCLUSIONS AND DECISION

The above entitled matter having come on for hearing on September 20, 1967 at the office of the Superintendent of Insurance, 123 William Street, New York, New York to show cause why all licenses issued to respondents should not be suspended or revoked, and why all pending applications for licenses should not be denied, on the grounds that respondents have demonstrated their untrustworthiness to act as insurance agents and brokers within the provisions of Sections 117 and 119 of the Insurance Law, and have violated Section 125 of the Insurance Law and Departmental Regulation No. 29; said proceedings having been commenced by the service of citation upon respondents in accordance with Sections 22, 23, 117 and 119 of the Insurance Law; Louis C. Ostrer having appeared by Norick & Pollina, Esqs., Michael C. Pollina of counsel; respondent Samuel Scheinhaus having appeared pro se; respondent Seymour Greenfield having appeared by David E. Flatow, Esq.; the Insurance Department having appeared by Robert Cohen, Esq.; and after having heard the proof presented by the parties herein and the matter having been fully submitted and due deliberations having been had, the following findings of fact, conclusions and decision are made:

FINDINGS OF FACT

1. The citiation in the above entitled proceeding issued by the Department was served upon respondents in accordance with the provisions of Sections 22, 23, 117 and 119 of the Insurance Law on August 23, 1967.

2. Respondents are presently licensed as follows:

(a) Louis C. Ostrer is licensed individually as an insurance agent pursuant to Section 113 of the Insurance Law, and as sublicensee of SMB Agency, Inc. and of The Homer Agency, Inc., both corporate agents pursuant to Section 113 of the Insurance Law.

(b) Samuel Scheinhaus is licensed individually as an insurance agent pursuant to Section 113 of the Insurance Law, and as sublicensee of SRS Planned Estates, Inc., a corporate insurance agent pursuant to Section 113 of the Insurance Law.

(c) Seymour Greenfield is licensed individually as an insurance agent and insurance broker pursuant to Sections 113 and 119 of the Insurance Law, respectively, and as sublicensee of Lincoln Affiliates Inc., of Viscount Agency, Inc. and of The Homer Agency Inc., corporate insurance agents, all pursuant to Section 113 of the Insurance Law, and as sublicensee of Sportsmen Brokerage Inc., a corporate insurance broker pursuant to Section 119 of the Insurance Law.

3. The Allmetal Screw Products Co., Inc. (hereinafter referred to as "Allmetal") a New York corporation having its home office in Garden City, New York, held life, insurance policies on the lives of its key executives, including Sylvan Haenel and Nat Epstein, among others, issued by the Canada Life Assurance Company (hereinafter referred to as the "company"). The company extended to holders of life insurance policies the privilege of depositing funds with said company, which deposit would be used for the payment of future premiums, to be allocated when same became due. Allmetal elected to deposit money with the aforementioned company to be used for the payment of future premiums on the policies held by Allmetal. The amounts so deposited were to be applied in payment of premiums through the year 1973. A portion of the funds so advanced for deposit by Allmetal was borrowed from the Long Island Trust Company, in return for which said policies were assigned to the bank as security. During March 1964 Allmetal issued checks totalling the sum of $379,341.86 made payable to the company representing deposits for future premiums on the Sylvan Haenel and Nat Epstein policies.

Said checks were delivered to respondent Louis C. Ostrer who was a sublicensee of Louis C. Ostrer Associates, Inc., at that time corporate agent of the company. In pursuance of a plan or scheme to improperly divert and/or misappropriate funds, said respondent, without authorization, altered the aforesaid checks by inserting

above the name of the payee company the following: "Louis C. Ostrer Associates, agents for". Thereafter, said respondent endorsed the checks and converted and/or misappropriated the proceeds of said checks to his own use and benefit. He also failed to remit to the company such funds representing deposits for future premiums. To date, respondent has not accounted for or returned such future premiums collected as outlined herein.

4. Prior to the period hereinabove mentioned, respondent Samuel Scheinhaus was secretary and sublicensee of Louis C. Ostrer Associates, Inc., as an accommodation officer, having resigned such office in December 1963. He neglected to inform this Department of such resignation and to surrender his sublicense at that time.

5. On or about February 27, 1967 respondent Louis C. Ostrer as sublicensee of Executive Affiliates, Inc., then a corporate agent of the company, and in pursuance of another plan or scheme to improperly divert and/or misappropriate funds, obtained or had printed for such purpose, letterhead stationery of Allmetal. On or about February 27, 1967, March 8, 1967 and April 4, 1967 he prepared and produced letters on such stationery of Allmetal addressed to Executive Affiliates, Inc., requesting refund of deposits made, as outlined hereinabove, and respondent Louis C. Ostrer signed such letters with the name of an officer of Allmetal. Said letters were subsequently forwarded by Louis C. Ostrer to the company with a request from him that the company honor the demand for refunds. During the period from March 2, to April 6, 1967, the company forwarded to said respondent for delivery to payees as mentioned herein, 12 checks totalling the amount of $359,639.86 payable to Allmetal and the Franklin National Bank or Allmetal and the Long Island Trust Company. Upon receipt of the aforesaid checks, respondent Louis C. Ostrer, without authorization, endorsed the names of the payees thereto, and then negotiated said checks to the Midtown Commercial Corp., and thereupon converted and/or misappropriated the proceeds thereof to his own use and benefit.

6. Respondent Seymour Greenfield was treasurer and sublicensee of Executive Affiliates, Inc., as an accommodation officer thereof.

CONCLUSIONS

The evidence clearly establishes that respondent Louis C. Ostrer pursued the herein described plans or schemes and misappropriated the funds mentioned therein. Accordingly, I conclude that he has demonstrated his untrustworthiness to act as an insurance agent within the contemplation of the Insurance Law, and has violated Section 125 of the Insurance Law and Departmental Regulation No. 29.

With respect to respondents Samuel Scheinhaus and Seymour Greenfield, there is no evidence indicating that they knew of or participated in the aforesaid fraudulent schemes. I, therefore, find that they were not personally at fault, directly or indirectly, in the matters on account of which licenses are being herein revoked.

DECISION

Therefore, pursuant to the provisions of Sections 117 and 119 of the Insurance Law, it is

Ordered, That the charges and specifications against respondents Samuel Scheinhaus and Seymour Greenfield be and the same are hereby dismissed, and it is

Further ordered, That all licenses issued by this Department to respondent Louis C. Ostrer be and the same are hereby revoked, and that all pending applications for licenses be and the same are hereby denied, and it is

Further ordered, That such revocation of licenses and denial of applications shall take effect ten days after the mailing of a copy of this decision to respondent Louis C. Ostrer, by registered mail.

Dated: New York, N.Y., October 4, 1967.

ALBERT J. MILLUS,
Deputy Superintendent of Insurance.

Richard E. Stewart, Superintendent of Insurance, pursuant to the authority vested in him under the New York Insurance Law, hereby approves and adopts the determination hereinabove made.

Dated: New York, N.Y., October 4, 1967.

RICHARD E. STEWART,
Superintendent of Insurance.

STATE OF NEW YORK INSURANCE DEPARTMENT,
New York, N.Y., December 22, 1967.

Licenses held by Louis C. Ostrer, a Manhattan insurance agent, charged with improperly diverting more than $700,000 from a Canadian life insurance company, have been revoked in an order issued by the New York State Insurance Department.

Ostrer, an agent for Canada Life Assurance Company but not an employee of that company, was also the sublicensee of SMB Agency, Inc. and of The Homer Agency, Inc. both of 377 Fifth Ave., New York City. The licenses of both agencies also were revoked.

The revocation order results from an Insurance Department hearing, at which it was established that Ostrer had demonstrated his untrustworthiness to act as an insurance agent within the intent of the Insurance Law.

The Department charged that Ostrer altered checks made out to Canada Life Assurance Company for $379,341 by inserting "Louis C. Ostrer, Associates, agents for" above the name of the Canadian insurer, cashed the checks and kept the proceeds. The checks had been forwarded to him from Allmetal Screw Products Co., Inc. as deposits for future premiums on life insurance policies.

The Department also found that Ostrer had used purported letterhead stationery of Allmetal, without its permission, to obtain refunds of premiums held on deposit by Canada Life Assurance Company. Through letters purportedly signed by officers of Allmetal, but in fact signed by Ostrer on the corporation's stationery, he obtained 12 checks totalling $359,639 payable to Allmetal from the insurance company. He endorsed the checks without authorization and kept the proceeds.

Ostrer, who resides at 181 Kings Point Road, Kings Point, N.Y., was licensed individually as an insurance agent under Section 113 of the Insurance Law, and as sublicensee of SMB Agency, Inc., and of The Homer Agency, Inc., corporate agents.

The Insurance Department has also denied all Ostrer's applications for licenses.

He has been indicted for grand larceny and forgery by the New York County Grand Jury.

APPENDIX VIII

STATE OF NEW YORK INSURANCE DEPARTMENT,
WELFARE FUND BUREAU,
New York, N.Y., September 8, 1972.

REPORT ON EXAMINATION OF THE LOCAL 295 SEVERANCE TRUST AS OF JUNE 30, 1971

Hon. BENJAMIN R. SCHENCK,
Superintendent of Insurance,
Albany, N.Y.

SIR: In accordance with Appointment Number WB 3085 dated May 23, 1972, I have made an examination as of June 30, 1971 of the Local 295 Severance Trust Fund, 179–30 149th Avenue, Jamaica, New York, 11434.

ADMINISTRATION

The fund is administered by ten trustees, five representing the union and five representing the employers. Trustees serving as of June 30, 1971 were:

Union trustees: James Costa, James Hallahan, Michael Hunt, John Moran, and Tom Sweeney.

Employer trustees: Frank Della Pelle, William Ermer, Martin Hoffenberg, Frank Labell, and Rubin Steiner.

Professional services are provided by the following:

Finkelstein, Goldstein & Rick, CPA's (Accounting), 570 17th Avenue, New York, N.Y.

Herbert Simon (Legal), 99 West Hawthorne Avenue, Valley Stream, N.Y.

Haskell Wolf (Legal), 150–36 182nd Street, Jamaica, N.Y.

Fringe Programs, Inc., (administrator) 377 5th Avenue, New York, N.Y.

Fidelity bond.—The fund has a $350,000 commercial blanket bond covering all trustees and employees.

MEMBER BENEFITS

Pursuant to collective bargaining agreements effective December 1, 1970 between Local Union 295 and various employers, the employers agreed to con-

tribute to the Local 295 Severance Trust Fund. The amounts of contributions required under the agreement are $15 for the first year of the contract, $30 for the second year and $40 for the third year for each week in which the employee appears on the employer's payroll.

A separate account is maintained for each member showing the employer payments made for him.

Benefits consist of a cash settlement upon termination of employment and a death benefit.

Following are comments on the plan and its administration:

[Plan provisions have been applied erroneously, resulting in overpayments to terminated members [1] in substantial amounts.]

Section 3.06 of the plan states:

In the event of termination of employment of a Member other than by death, he shall be entitled to the following benefits:

(a) If the terminated Member was a Member of the Plan on December 1, 1970, he shall be entitled to the amount standing to his share account as of the date of determination as computed in Section 4.04.

(b) If the terminated Member entered the Plan after December 1, 1970, he shall be entitled to the following benefits:

Period of Membership in the Severance Plan of a Member entitled to Severance Benefits and Employer contributions credited to the Member's account:

At least (1) year, but less than two (2) years: 20 percent.
At least two (2) years, but less than three (3) years: 40 percent.
At least three (3) years, but less than four (4) years: 60 percent.
At least four (4) years, but less than five (5) years: 80 percent.
At least five (5) full years: 100 percent.

Section 4.04 of the plan states:

The Member's account in the Severance Plan as of the last evaluation date shall consist of an aggregate of the following:

(a) The total Employer contributions to the Trust Fund on his behalf, less;

(b) The allocated share of charges against the Trust Fund on account of necessary cost, fees and other expenses, if any, incurred in connection with the establishment and administration of the Severance Plan, less;

(c) The insurance premiums paid on Contracts issued on the life of such member, plus;

(d) The increment or decrement credited to his account from his entrance into the Severance Plan up to the last evaluation date. Increment or decrement shall be annually credited to each account in the same proportion as the money in each individual account is to the total fund of all accounts.

In accordance with the plan it appears that the cash benefit upon terminations of employment should equal the total contributions made on behalf of the member less his allocated share of administrative charges, less the premiums paid by the fund on the insurance contract obtained on his life plus any increments or decrements credited to his account.

While the plan does not so specifically provide, equity and logic would seem to dictate that a terminated member should recieve the insurance policy on his life, in addition to the cash benefit.

In actual practice the trustees have paid cash benefits, to inception members who terminated employment, equal to the total contributions made on their behalf.

This apparent misapplication of the rules has resulted in substantial overpayments to terminated members.

[Members have not consented in writing to insurance coverage on their lives.]

The amount of coverage on the life of a member, obtained by the fund, varies in accordance with the age of the member. The formula for determining the face amount of insurance is as follows: subtract the member's age at the age of issue of the policy from 65 and multiply the result by $750. Inception members were covered for insurance immediately.

In accordance with the plan, new members are covered for insurance on the first quarterly enrollment date following six months of employment with a contributing employer.

Upon termination of employment the fund pays an additional two months premium to continue coverage. In addition there is a 30 day grace period which extends the insurance for a period of three months after termination.

Members who are less than 55 years of age at the time of issue of the policy are covered for a waiver of premium benefit. If a member becomes totally and

[1] Members terminated by other than death.

permanently disabled while insured before age 60 the life insurance will remain in force as long as he remains so disabled without payment of further premiums.

The insurance companies, Executive Life Insurance Company of New York and the Trans World Life Insurance Company of New York are issuing ordinary non-participating whole life insurance on the lives of the members on a guaranteed issue basis.

It is noted that the insured members did not make application for this coverage or give consent in writing therefor. Section 146(3) of the New York Insurance Law requires such application and permission.

[There are no written formal agreements between the fund and the insurance carriers setting forth eligibility for coverage.]

There are no written formal agreements between the fund and the insurance carriers, whereby the carriers agree to provide the insurance coverage in accordance with the fund's plan.

However, the carrier has refused to pay claims if the member did not meet the fund's eligibility requirements even though the carrier issued a whole life contract on the member and accepted premium payments.

The aforesaid action by the carrier appears to violate Section 142 of the New York Insurance Law.

[Death benefits have been overpaid because of failure to carry out plan provisions.]

Section 3.12 of the plan states:

"In the event of the death of a Member prior to termination of employment, there shall be payable as a death benefit to his beneficiary, if designated, or to his estate if no beneficiary has been designated the proceeds of any Contracts issued upon his life plus the amount credited to such deceased Member's account as of the date of his death.

"For the purpose of this Section the 'amount credited to a Member's account' shall mean the amount the Employer has contributed for such Member plus increment or decrement credited to such amount as of the last evaluation date prior to the Member's death, less such Member's allocated share of charges against the Trust Fund and less insurance premiums paid for Contracts on the life of such Member."

In actual practice the trustees have paid to the beneficiaries of deceased members the total contributions made on their behalf in addition to the life insurance benefit received by the fund from the carrier.

[The trustees, contrary to the Plan and with questionable legality, withhold a part of the insurance proceeds upon death of a member.]

Section 3.17 of the plan states:

"* * * Payment of the proceeds of Contracts issued on his life as a death benefit shall be made in equal monthly, quarterly, semi-annual or annual installments, in the sole discretion of the Trustees, over a period of ten (10) years after the death of a Member who died on or prior to his fifty-fifth (55th) birthday, or over a period of five (5) years after the death of a Member who died after his fifty-fifth (55th) birthday, provided that the amount of each such payment is at least Twenty-Five ($25.00) Dollars."

A beneficiary electing to receive the death benefit in a single sum payment, receives the commuted value. The commuted value is calculated on a 6% interest factor and is 73.6% and 84.2% of the face amount for a ten and five year payout respectively.

The trustees, by paying an amount equal to the face value of the insurance to the fund beneficiary over a period of time without interest, and by retaining a part of such face value when paying the fund beneficiary a lump sum, have acted contrary to the plan.

Section 146 (1) of the New York Insurance Law provides in part as follows:

"No person shall procure or cause to be procured, directly or by assignment or otherwise any contract of insurance upon the person of another unless the benefits under such contract are payable to the person insured or his personal representatives, or to a person having, at the time when such contract is made, an insurable interest in the person insured."

Your examiner questions whether the above described fund actions are in accordance with the quoted law.

The proceeds of life insurance, retained by the fund on the death of members, should be paid to the members' designated fund beneficiaries.

Apparently, even the designated beneficiaries of those members who are terminated prior to death and have acknowledged ownership of their policies are denied the full proceeds of their policies. In the case of John Cerrito, who termi-

nated on July 2, 1971 and who died on September 4, 1971, the fund paid his beneficiary the commuted value of the policy, $7,728.09 instead of the face amount, $10,500. Even though Mr. Cerrito had been advised on May 10, 1971 by Fringe Programs, Inc. that "coverage will be turned over to your ownership."

[In other respects, the administration of the plan has been unsatisfactory.]

Section 2.04 of the fund's plan reads as follows:

"In the event of termination of Membership hereunder of a Member for any reason whatsoever and his subsequent entry into this Severance Plan, he shall be considered a new Member and shall not be entitled to any additional benefits as a result of his previous membership in this Severance Plan. The purpose of this provision is to avoid duplication of benefits."

In one instance an inception member, Michael Quirk was permanently laid off by a participating employer and the member received severance benefits of $795.00. On May 31, 1972 the administrator, Fringe Programs, Inc. granted this member the option of returning his cash benefit and reentering the plan as an inception member when he was reemployed by a contributing employer.

It appears that the amount of insurance actually purchased for some members is not in accordance with the plan. Section 3.10 of the plan reads as follows:

"Notwithstanding any other provision in this Severance Plan to the contrary, the purchase by the Trustees of a Contract or Contracts on the life of each Member shall be so limited that the aggregate of the premiums for ordinary life insurance in the case of each Member shall be not more than forty-nine and nine-tenths (49.9%) percent of the aggregate of the contributions allocated to such Member at the particular time or as may be required by the appropriate statute."

In reviewing the individual members' accounts, numerous cases were found where the premiums exceeded 49.9 percent of contributions. This results from the fact that the amount of insurance is purchased for each member on the basis that he will work a full 52 weeks during the year, when in certain instances this does not occur.

The plan and the trust agreement appear to be in conflict on the point of providing members with an annuity benefit. The trust agreement under Section 7.3 states:

. . . "no pension or annuity benefit may be provided for or paid to any Employee under this Agreement."

The plan under Section 3.01 states:

"Any member who has reached his sixty-fifth (65) birthday shall be eligible for an annuity type benefit established by the Trustees. * * *"

[The insurance arrangement was in actual fact solicited by Louis Ostrer, who had lost his New York agent's license for misconduct.]

Louis C. Ostrer solicited the insurance arrangement although he is not licensed as an agent by the New York State Insurance Department, nor is he registered with this Department as an insurance consultant. Attached to this report is a release issued by the New York State Insurance Department dated December 22, 1967, which indicates Mr. Ostrer's licenses had been revoked for improperly diverting more than $700,000 from a Canadian life insurance company.

It is noted that copies of this release were presented to the trustees at a meeting held at the Department's office on August 24, 1971. Representing the fund at the meeting were trustees Steiner and Hunt and fund counsel Herbert Simon. The minutes of the trustees' meeting of November 17, 1971 indicate that this information was circulated to all the trustees.

Mr. Ostrer attended all the trustees' meetings and attended the membership meeting held on December 6, 1970 at which the members ratified the plan. Mr. Ostrer's sister, Dina Gelman, a licensed insurance agent has been designated as both general and soliciting agent to receive commissions. Dina Gelman has not once attended a trustees' meeting.

Dina Gelman is also the sole stockholder of Fringe Programs, Inc., the administrator of the plan. For the first two years of the plan's operation which will end at December 1, 1972, Dina Gelman will have received approximately $762,-500.00 in commissions and $160,000 in administration fees for a total of approximately $922,500.00. This figure represents approximately 30% of the total contributions which will have been made by all employers on behalf of all covered employees for the two year period.

[Presentation by Louis C. Ostrer to the trustees was misleading.]

At the July 15, 1971 meeting of the trustees Mr. Ostrer presented the following memorandum comparing term insurance to ordinary life:

FRINGE PROGRAMS INC.,
New York, N.Y.

MEMORANDUM RE: UNION LOCAL 295

Group Premium Level Term v. *Ordinary Life*

Annual premium for term	$258, 662. 76
Annual premium for term per month	21, 555. 23
Ordinary life annual premium	505, 125. 00
Ordinary life monthly premium	42, 093. 75

The following is a twenty (20) year comparison at age 33, between level group term and ordinary life:

	Term	Ordinary
Annual premium	$290. 08	$388. 80
Multiplied by (years)	20	20
Total	$3, 801. 60	7, 776. 00
Cash equity (after 20 yr)	0	7, 067. 00
Net cost (20 yr)	3, 801. 60	708. 72

To continue the policy at age 53, the premium would be $1,015.68 to convert to ordinary life. However, this would not create equity in the converted policy until the end of the year two.

Attached herewith is a census as to the ages and amounts of insurance establishing the term cost of $258,662.76.

Under the ordinary life contract, it is safe to assume that we would recover approximately 85 to 90% of all premiums via cash value build-up so that we would recover approximately 8½ to 9 million in equity against no equity in term. Notwithstanding the fact that we would arrive at a net cost of approximately 1 to 1½ million in lieu of $5,100,000 in cost for term and an anticipated conversion rate that would, in effect, make it impossible for any rank-and-file to be able to continue his policy at severance.

Mr. Ostrer's presentation was misleading. In the case of term insurance the trustees themselves maintain the savings account for the difference of the whole life premium less the term premium, whereas, under whole life insurance, the insurance company maintains the savings (the "cash value"). If the trustees were to deposit the difference between the whole life premium and the term premium in a 5% interest bearing account, they would accumulate savings comparable to the cash values under the whole life contracts, at the end of a twenty year period.

[For Local 295 membership, the use of ordinary whole life insurance contracts is seriously questionable in certain respects.]

The high insurance costs involved in early terminations under whole life policies are highly significant for this plan because the annual turnover rate in the Local 295 plan membership appears to be approximately 15%. Under the fund's insurance policies there is very little cash value during the early years, in fact for those members under 25 there is no cash value until the fourth year. If a member joins the plan at age twenty four and terminates after three years, the fund will have expended approximately $2,270.00 in premiums and the policy will have no cash value.

Another serious deficiency in the present plan is the following:

An eligible member who joins the plan at age 33 should have $48,000 of insurance. Should the member after two years of coverage be laid off due to a temporary period of unemployment for a period in excess of three months the insurance on his life would be cancelled. When he returns to work and he is subsequently eligible for insurance, new policies would be purchased and since the member is three years older the new coverage would be reduced to $43,500. Naturally if the member had been in the plan for a longer period before the layoff the insurance would be reduced to a larger extent. The policies which after the two years in force would have started accruing cash values would have been cancelled and the new policies would have to be in effect for two years before any cash values would accrue.

Since the initial cost of life insurance policies are charged against the cash value increases in the earlier policy years, the replacement of an old policy by a new one results in the policyholder sustaining the burden of these costs twice.

It is quite clear that the fund and the member will lose when new policies are issued. The only party that gains from the new policy transaction is the agent who again is paid 90% of the first year premium in commission and allowance.

[The scale of payments to the insurance agent is unconscionably high and in gross contravention of the Code of Ethical Practices; the fund trustees, in failing to demand adherence to the commission scales in the Code, have demonstrated serious lack of fiduciary responsibility.]

The Code of Ethical Practices was adopted by the National Association of Insurance Commissioners in 1957 to deal with commission and other insurance abuses found during a comprehensive investigation by the New York Insurance Department in 1954–1956. It has immeasurably improved the administration of welfare funds subject to registration under Article 3A of the Insurance Law.

The Code applies to permanent forms of life insurance sold on a group basis. The purpose of the Code is clearly evident in the following quotations from the Code:

"The basic purpose of this Code is to prevent a recurrence of insurance abuses."

"The Code of Ethical Practices, adopted by the National Association of Insurance Commissioners, is intended to serve as a declaration of applicable principles in the proper conduct of insuring welfare and pension funds."

"Excessive commissions, fees and other allowances tend to reduce the level of benefits paid to beneficiaries of welfare and pension funds. Consequently, it is in the best interest of the public and the beneficiaries of such funds that the commissions, fees and other allowances be reasonable and not excessive."

The permissible commission rates are introduced in the Code as follows:

"The table following illustrates on the basis of the effective rate for the indicated premium volume a generally accepted range of commission rates, first-year and renewal averaged over a ten-year commission-paying period, to insurance agents and brokers, derived from schedules currently in use on group life and group accident and sickness policies, which are considered to be reasonable and not excessive."

After the display of commission rates, the Code provides as follows:

"Any commission rate schedule used by an insurer for welfare funds is considered unreasonable and excessive if it provides for the payment of commission in excess of the range shown in the preceding table."

At the August 24, 1971 meeting held at this Department with representatives of the Fund, the Department voiced criticism of the plan; an analysis was presented indicating rates of commission, payable under the insurance arrangement, that are unconscionably high, in contravention of the Code of Ethical Practices, and detrimental to the interests of the trust fund.

The commission payable in accordance with the Code of Ethical Practices for the first two policy years would be approximately $27,600, calculated as follows:

	Amount	Code rate [1]	Commissions
Premium subject to 1st yr commission	$1,000,000	2.45	$24,500
Renewal premium	500,000	.62	3,100
Total	1,500,000		27,600

[1] Average rate in code converted to 1st yr and renewal rates.

In contrast, the commissions payable by the carriers to Dina Gelman for the first two policy years will be approximately $762,500 or 27 times the commissions payable under the code, calculated as follows:

	Amount	Rate (percent)	Commissions and allowances
Executive Life Insurance Co.:			
1st-yr premium	$500,000	50	$250,000
Renewal premium	500,000	12½	62,500
Trans World Life Insurance Co.: 1st yr premium	500,000	90	450,000
Total	1,500,000		762,500

If commission had been made payable not at the unbelieveably high rates currently in effect but at the range of rates contemplated in the Code of Ethical Practices, the savings in commissions could have been of great financial benefit to the trust fund. Such savings could have been passed on the fund in the form of lower premiums or, the contracts could have been rewritten on a participating basis so the fund could receive the savings as dividends.

The trustees, having full knowledge that the 50% first year commissions and the high renewal commissions payable by Executive Life Insurance Company were excessive and in contravention of the Code of Ethical Practices, took no firm action to bring about reduction of the commission rates.

When the insurance amount was doubled in conjunction with the contribution rate increase from $15 per week per man to $30 effective December 1, 1971, the new policies representing the additional amount were placed with the Trans World Insurance Company under an aggregated 90% first year commission and allowances. The trustees at the time of the placement of the additional insurance once again took no action to effectuate reasonable commission rates.

CONCLUSIONS REGARDING MEMBER BENEFITS

As indicated in this section, the plan, its administration, and its acceptance by the trustees are subject to serious criticism.

(1) Plan provisions have been applied erroneously resulting in overpayments to terminated members in substantial amounts (Page 3–5).

(2) Members have not consented in writing to insurance coverage on their lives (Page 5–6).

(3) There are no written formal agreements between the fund and the insurance carriers setting forth eligibility for coverage (Page 6).

(4) Death benefits have been overpaid because of failure to carry out plan provisions (Page 6–7).

(5a) The trustees contrary to the Plan and with questionable legality withhold a part of the insurance proceeds upon death of a member (Page 7–8).

(5b) Apparently even the designated beneficiaries of those members who terminated prior to death and have acknowledged ownership of their policies are denied the full proceeds of their policies (Page 8).

(6a) The trustees allow terminated members the option of returning their cash benefits and reentering the plan as inception members, which is contrary to the plan (Page 9).

(6b) The amount of insurance actually purchased for some members is not in accordance with the plan (Page 9).

(6c) The plan and the trust agreement are in conflict on the point of providing members with an annuity benefit (Page 10).

(7) The insurance contract was in actual fact solicited by Louis Ostrer who had lost his New York agent's license for misconduct (Page 10).

(8) Presentation by Louis C. Ostrer to the trustees was misleading (Page 11–14).

(9) For Local 295 members, the use of ordinary whole life insurance contracts is seriously questionable in certain respects (Page 14).

(10) The scale of payments to the insurance agent is unconscionably high and in gross contravention of the Code of Ethical Practices; the fund trustees, in failing to demand adherence to the commission scales in the Code, have demonstrated serious lack of fiduciary responsibility (Page 16).

It is recommended that appropriate action be taken by this Department and the trustees for the protection of fund members.

INFORMATION TO MEMBERS

Fund records and procedures indicate that the following distributions were made:

(1) Annual Reports to members and contributing employers in accordance with Department Regulation 36.

(2) Descriptive booklets to members.

(3) Certificates of insurance to members.

(4) Individual reports to members indicating the amount of contributions credited to the member's account.

The descriptive booklet distributed to the members was found to be inadequate in that it failed to notify the member of his rights in the event of total and permanent disability.

As indicated under Member Benefits in this report, the actual practice in administering the plan differs from the wording of the plan; examples are the treatment accorded terminations and death benefits.

In view of the omission of significant material from the booklet and the misapplication of rules by the trustees, it is probable that the members did not understand the plan when they ratified it on December 6, 1970.

It is essential that corrective action be taken.

INCOME AND OUTGO

The fund's income and outgo statement for the seven month period ended June 30, 1971 follows:

Income:	
Employer contributions	$586, 065. 00
Total income	586, 065. 00
Outgo:	
Premiums paid to insurance company	299, 047. 45
Direct benefits	4, 065. 00
General expenses	70, 848. 17
Total outgo	373, 960. 62
Fund balance	212, 104. 38

General expenses consist of the following:

Salaries	2, 800. 00
Legal	10, 500. 00
Audit	3, 150. 00
Rent	1, 079. 40
Taxes	234. 85
Telephone	202. 03
Meeting expense	997. 03
Administrators fee	50, 000. 00
Miscellaneous expense	1, 884. 86
Total	70, 848. 17

These expenses represented the first seven months of the fund's operation. As of July 1, 1972 the annual expenses of the fund were running at the rate of $124,000 and consisted of the following:

Salaries	$9, 000
Legal	18, 000
Audit	9, 000
Rent	4, 317
Taxes	900
Fringe benefits	2, 860
Administrator's fee	75, 000
Miscellaneous expense	5, 000
Total	124, 077

A count as of June 1, 1972 indicated there were 1329 covered members. Therefore, current annual administrative expenses are at the rate of $93.36 per member. Based on statistics compiled by the Department, the average annual administrative expenses per member in 1970 for 93 registered pension funds with contributions in excess of $1,000,000 was $20.86. The annual administrative expenses per member for this fund are currently at the rate of $93.36, four and one half times the average. It is recommended that the total operating expenses of the fund be made to approach, within reason, the average of funds of similar size, and that the trustees take prompt action to resolve on such economies as will bring about that result.

Administrator's fee

Fringe Programs, Inc., is the fund's administrator. Dina Gelman, who is also the agent receiving commissions on the fund's insurance program, is the sole stockholder of Fringe Programs Inc. The administration fee for the first year of operation was $86,877.90.

It is noted that at the initial trustees' meeting held on January 21, 1971 Mr. Ostrer, representing Fringe Programs Inc., indicated that charges for the administrative service by Fringe Programs Inc. for plan administration would be approximately 94¢ per member per month. Based on Mr. Ostrer's figure, annual administration charges should have been approximately $15,000. Actual charges have exceeded his original quote by more than $70,000 or 5½ times.

The trustees paid the $86,877.90 first year administration fee and continue to pay Fringe Programs, Inc. an administration fee which is presently running at the annual rate of $75,000.

The duties performed by Fringe Programs, Inc., duplicate in some areas the work performed by the fund's employee.

It is recommended that the trustees evaluate the functions performed by Fringe Programs, Inc., with the view of having these functions performed by fund personnel at the fund's premises or by another service organization, at substantially reduced costs.

Legal

The fund retains the services of two attorneys: Herbert Simon and Haskell Wolf, at an annual fee of $9,000 each for legal services. In view of the fund's high administrative cost per member it is recommended that reconsideration be given to the need for retaining more than one attorney on a continuing basis.

BALANCE SHEET

The fund's balance sheet as of June 30, 1971 follows:

Assets:	
Cash in bank	$223,061.35
Contributions receivable	71,820.00
Prepaid expenses	462.35
Furniture and equipment	1,744.09
Total assets	297,087.79
Liabilities and funds:	
Unpaid claims	29,445.00
Accrued expenses payable	54,614.46
Taxes payable	323.95
Employer contributions refundable	600.00
Reserve for future benefits	212,104.38
Total liabilities and funds	297,087.79

ASSETS

Investment powers

In accordance with the provisions of the trust agreement, the trustees may make investments in their sole discretion.

Cash in bank

This item consisted of $223,061.35 in a checking account with the Central State Bank of New York. All withdrawals require the signatures of two trustees. The balance was confirmed by direct correspondence with the bank and reconciled with fund records.

LIABILITIES AND FUNDS

Employer contributions refundable

The fund had received $600 contributions from the National Association For Air Freight to cover J. Cossu and Haskell Wolf under the plan. There was no provision in the governing documents authorizing coverage for these persons and the contributions were refunded to the National Association For Air Freight on November 1, 1971.

GENERAL CONCLUSION

As set forth under the various sections of this report, the trustees have acted in a manner that demonstrates incompetence and a lack of fiduciary responsibility.

It is recommended that this Department act to protect the interests of covered members.

Respectfully submitted.

MURRAY ZAROFF, *Examiner.*

STATE OF NEW YORK,
County of New York, ss:

---------- being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

MURRAY ZAROFF, *Examiner.*

Subscribed and sworn to before me this 28th day of September 1972.

RAY F. GENNARI, *Notary Public, State of New York.*

Qualified in Kings County, Commission Expires March 30, 1973.

STATE OF NEW YORK INSURANCE DEPARTMENT

I, Benjamin R. Schenck, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint Murray Zaroff as a proper person to examine into the affairs of the Local 295 Severance Trust Fund of 179–30 149th Ave., Jamaica, NY 11434 and to make a full report to me in writing containing such information as he shall deem requisite to furnish me a complete statement of the condition of its affairs and of the manner of conducting its business.

In Witness Thereof, I have hereunto subscribed my name and affixed the official Seal of this Department, at the City of New York, this 23rd day of May 1972.

BENJAMIN R. SCHENCK,
Superintendent of Insurance.
JAMES J. HIGGINS,
Supervising Examiner Welfare Fund Bureau.

APPENDIX IX

NOVEMBER 23, 1971.

Memorandum to: John P. Constandy.
From: Stephen B. King, William F. Gibney.

Subject: Interview of Cy Reeves Snyder re Louis Ostrer and Severance Benefit Fund of Local No. 295, I.B.T.

On November 19, 1971, Cy Reeves Snyder, aka, Cy Reeves was interviewed at his residence, 1562 N.E. 191st Street, Apt. 312, North Miami Beach, Florida, by King and Gibney. His telephone number is [redacted]

At the offset of the interview, Snyder advised that he had been in contact with Julius November, his attorney in New York, who is also President of Fringe Programs, Inc. of New York. Snyder stated November had advised him to not answer any questions regarding Fringe Programs administration of the Severance Benefit Fund of Local #295 unless he (November) were present.

Snyder who is 63 years old was born in New York City Samuel Reeves Snyder. He stated he is known as Cy Reeves and only files his income tax (Miami) as Cy R. and Betty Snyder. His wife, Betty, was periodically present during the interview.

Snyder advised that he has been an entertainer for the past 40 years. In 1959 he became a licensed insurance agent in New York. He has subsequently become licensed in New Jersey, Pennsylvania, California and Florida. Snyder stated he has been or is an agent (non-resident in most instances) for the following companies, agencies:

Foundation Life Insurance Company, Jersey City, N.J. (agent for them since 1965)

Modern Agency, Inc.—(stated he incorporated this agency in 1965 in N.J. He left in 1966 or 1967 and it was taken over by Seymour Greenfied.)

Eastern Life Insurance Company—agent.

Phoenix Mutual—agent.

Empire State Life Insurance Company.

Citizens Life—Cy R. Snyder Agency.

Canada Life—agent with N.Y. Empire—Louis Ostrer was general agent.

Snyder said he first met Louis Ostrer in 1959 through his brother Jack (deceased) who was a salesman for Ostrer. It was Ostrer, Snyder said, who interested him in insurance and who was instrumental in getting him licensed in N.Y. He said he joined Ostrer as an agent for N.Y. Empire and remained there until he left N.Y. in 1967 for Miami. As an agent for Ostrer, Snyder received the normal 50–55% commission from Ostrer. Snyder stated Ostrer handled the Canada Life account

through N.Y. Empire. Snyder said Ostrer had a huge account with Canada Life but it all evaporated with Ostrer's trouble and subsequent conviction for larceny. It was at this time that Snyder left N.Y. and came to Miami. He said he gave a deposition re the Canada Life matter to the N.Y. State Insurance Department (Mr. Robert Ross) approximately two to 2½ years ago. At that time Snyder said he was told he could no longer do business with Louis Ostrer without risking his own license (Ostrer's license was revoked).

The Cy Reeves Snyder Agency, which Snyder says was never incorporated went out of existence when he left N.Y. in 1967. However, when questioned regarding the use of the agency vis-a-vis local #295 and the Severance Benefit fund, Snyder stated he had allowed Fringe Programs, Inc. and Dina Gelman specifically to use his name as an accommodation to them. Snyder explained he was used because he was an authorized agent of Executive Life Insurance Company of N.Y. by virtue of having been an agent to its predecessor, Citizens life Insurance Company. As carrier for the #295 fund, Executive Life Insurance Company of N.Y. made advances against future commissions to Dina Gelman. These advances took the form of promissory notes. Until Gelman became an agent of Executive Life Insurance Company, Snyder permitted his name to be used.

Snyder advised he was last in N.Y. prior to Christmas of 1970 and at that time signed some papers in the office of Julius November. He couldn't recall everything he signed. He was adamant, however, that he has signed nothing with regard to Fringe, or Cy R. Snyder Agency since December, 1970. He also emphatically stated he received no money for allowing his name to be used. He reiterated that this was an accommodation to Gelman and Fringe, to include Seymour Greenfield. He denied accommodating Ostrer. He stated he was told that any income derived from this matter would go to Gelman, Greenfield or Fringe.

Snyder did state he has received approximately $3,000 in subsistence from Fringe Programs over the past two years for his efforts to sell the severance benefit fund concept to local (Florida) unions. He said he has had no success to date largely because of the wage freeze.

Snyder continued by stating that he only maintains a bank account at the City National Bank, 71st Street, North Miami Beach, Florida.

FEBRUARY 22, 1972.

Memorandum to: John P. Constandy.
From: Stephen B. King and Robert E. Dunne.
Subject: Reinterview of Cy Reeves Snyder—File 18–339.

On February 17, 1972, King and Dunne reinterviewed Cy Reeves Snyder at his home, 1562 N.E. 191st Street, North Miami Beach, Florida, Apartment 312, telephone No. XXXXXXXXXXXX

At the offset, Snyder expressed some consternation over arrangements between ourselves and Julius November, attorney for Snyder (see Dunne memo re conversation with November). Snyder said it was his impression that he was not to give or sign any statement to us. Dunne told Snyder that November had told us he didn't care what Snyder did, whereupon Snyder called November in our presence. After speaking shortly with November, Snyder asked Dunne to talk to November. The resulting conversation ended with November *telling* Snyder not to give or sign any statement.

In view of the above, Snyder stated he would not examine endorsements in his name on checks issued by the Executive Life Insurance Company of New York nor would Snyder discuss the details of the arrangements concerning these checks. He reiterated his prior statement to King that the arrangement was simply an accommodation for a friend.

Snyder advised that he had been attempting to get a small (approximately 360 men) plasterers local in West Palm Beach to adopt the severance plan but the wage price freeze and additional problems had developed to the point where it was not likely the local would adopt the plan. Snyder could not recall the name of the local, its business agent or the attorney who represented Louis Ostrer in the matter. Ostrer was down on several occasions regarding this matter, according to Snyder. Snyder had no knowledge of any other plans Ostrer had for Florida. He did say Ostrer had been down several times within the past month (to visit his parents and to bring his wife who is recovering from an operation).

Snyder stated that any attempts by Ostrer to do business in Florida would be in the form of favors to Snyder. He said he would administer any funds established by Ostrer in Florida. Snyder is a licensed insurance agent in Florida.

Snyder was advised that he may be asked to explain the arrangements behind the issuance of the above-mentioned checks in Washington, D.C.

APPENDIX X

EXECUTIVE LIFE INSURANCE COMPANY
NEW YORK

6592

1-108
210

DEC 21

EXECUTIVE LIFE $25000 AND 00 CTS

PAY

CY REEVES SNYDER

DATE 12/17/70

AMOUNT $25,000.00

GENERAL ACCOUNT

TO THE ORDER OF

MARINE MIDLAND GRACE
TRUST COMPANY OF NEW YORK
110 WILLIAM ST., NEW YORK, N.Y. 10038

⑆021001081⑆ 005 75540 9⑈ ⑈000250000⑈

6592

1-482

Cy Reeves Snyder

61-5-1970 7-8

DEC 18 70 22222

1239

DEC 19 '70

15
12

1970

25 PAY ANY BANK - P.E.G.
MANUFACTURERS HANOVER TR. CO.
NEW YORK N.Y. 1-30
1-30

EXECUTIVE LIFE INSURANCE COMPANY
NEW YORK

6593

1-108
210

EXECUTIVE LIFE $50000 AND 00 CTS

PAY

CY REEVES SNYDER

DATE 12/17/70

AMOUNT $50,000.00

GENERAL ACCOUNT

TO THE ORDER OF

MARINE MIDLAND GRACE
TRUST COMPANY OF NEW YORK
110 WILLIAM ST., NEW YORK, N.Y. 10038

⑆021001081⑆ 005 75540 9⑈ ⑈000500000⑈

6593

Cy Reeves Snyder

21 PAY TO THE ORDER OF
CHEMICAL BANK
REGO TRADING CORP.
021-030650

CHEMICAL BANK
NEW YORK, N.Y. 1-12
PAY



EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

6651

1-108
210

EXECUTIVE LIFE $25000 AND 00 CTS

PAY

TO THE ORDER OF CY REEVES SNYDER

DATE 12/21/70

AMOUNT $25,000.00

GENERAL ACCOUNT

MARINE MIDLAND GRACE
TRUST COMPANY OF NEW YORK
140 WILLIAM ST., NEW YORK, N.Y. 10038

⑈021001081⑈ 005⑈75540⑈9⑈ ⑈000250000⑈

6657

By Reeves Snyder
273 [illegible]

21 PAY TO THE ORDER OF 21
CHEMICAL BANK
REEO TRADING CORP.
021-008639

DEC 22 70 CHEMICAL BANK NEW YORK 1-12

1-12 PAY ANY BK. EXCH. OR TR. CO. P.E.G.
CHEMICAL BANK
1-12 NEW YORK, N.Y. 1-12

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

6945

1-108
210

PAY Cy R. Snyder Agency Inc. THIRTY FIVE THOUSAND and no/100

JAN 26 71

DATE

AMOUNT 35,000 00

TO THE ORDER OF

GENERAL ACCOUNT

MARINE MIDLAND GRACE

⑈005⑈75540⑈9⑈

By R Snyder Agency Inc
Cy R Snyder Pres

21 PAY TO THE ORDER OF 21
CHEMICAL BANK
REEO TRADING CORP.
021-008639

JAN 26 71 CHEMICAL BANK NEW YORK 1-12

1-12 PAY ANY BR. EXCH. OR TR. CO.
CHEMICAL BANK
1-12 NEW YORK, N.Y. 1-12

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

6944
1-108
210

PAY Cy R. Snyder FIFTY THOUSAND and 00/100

DATE 1-25-71 AMOUNT 50,000 00

GENERAL ACCOUNT

TO THE ORDER OF

Robert L. Loehmann

MARINE MIDLAND GRACE
TRUST COMPANY OF NEW YORK
110 WILLIAM ST., NEW YORK, N.Y. 10038

⑈0210⑆0108⑈ 005⑈7554O⑈9⑈ ⑈0005000000⑈

6944

Cy R Snyder
Henry Brown
1112 Jan 27 71

NATL BANK OF NORTH AMERICA 187
CCC NEW YORK, N.Y. 1-315

NATL BANK OF NORTH AMERICA
CCC NEW YORK, N.Y. 1-315

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

6946
1-108
210

PAY Cy R. Snyder Agency ONE HUNDRED FIFTY THOUSAND and 00/100

DATE 1-25-71 AMOUNT 150,000 00

GENERAL ACCOUNT

TO THE ORDER OF

Robert L. Loehmann

MARINE MIDLAND GRACE
TRUST COMPANY OF NEW YORK
110 WILLIAM ST., NEW YORK, N.Y. 10038

⑈0210⑆0108⑈ 005⑈7554O⑈ ⑈0015000000⑈

6946

Cy R Snyder
Mrs Gurney
27 JAN

Ok for cash
Mrs G

Manhattan Bank N.A. 27-71 1971 1-2 0360/8 0420 0150000000
Manhattan Bank N.A. 1971 1-2 0360/8 0420 0150000000
cash 75000
cash 60000
Deposit 15000

APPENDIX XI

Memorandum to: Otto Forst.
From: Harry O. Miller.
Date: December 10, 1970.

Attached are the documents for the loan to be made to Cy Reeves Snyder.

The loan has been drawn so that the first repayment is due on January 10, 1971 and the entire balance is payable over a 48-month period, or on earlier demand by the company. The loan bears no interest and is to be guaranteed by Viscount Agency, Inc., Fringe Programs, Inc., Louis C. Ostrer and Seymour Greenfield, all of whom must sign the Guaranty.

The Security Agreement assigns all commission contracts that Cy Snyder or Viscount Agency, Inc., has with any other company. It does not cover our commission agreements since the agreements themselves provide for an offset, and to include them here would only permit the Department to argue a violation of Section 213.

Before the Security Agreement is signed, please have Viscount Agency, Inc. and Cy Snyder prepare Schedule A referred to in paragraph 2 of the Security Agreement and attach it to the executed Security Agreement. Have Schedule A signed by both Viscount Agency and Snyder.

Please have Snyder and Viscount Agency also verify the amount to be inserted in paragraph 3 of the Security Agreement.

Enclosures.

APPENDIX XII

COUNTY OF NEW YORK,
State of New York, ss:

I, Norbert F. Lochner, President of Executive Life Insurance Company of New York, 540 Madison Avenue, New York, New York, having been advised of my rights, make the following statements voluntarily and freely to John Tschirhart and Michael Cesario, who have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. I have not been coerced or intimidated in any way.

Executive Life Insurance Company of New York is a subsidiary of First Executive Corporation, a holding company which is located at 9777 Wilshire Boulevard, Beverly Hills, California. Mr. Otto Forst is Chairman of the Board of First Executive Corporation and Executive Life Insurance Company of New York. He conducted the initial discussions concerning the writing of insurance under the Local #295 Severance Trust Fund. Because of the requirements of New York State insurance law, the Local #295 Severance Trust Fund business had to be written by an insurance company licensed in New York State. Therefore in his capacity as Chairman of the Board of Executive Life Ins. Co. of N.Y. Mr. Forst informed me that Executive Life Insurance Company of New York would be handling the insurance written under this plan.

In conjunction with the Local #295 business, I, along with Mr. Forst, co-signed checks payable to Cy Reeves Snyder and Dina Gelman. These checks totaling $431,516.43 represented loans to the general agent secured by the commissions due the general agent on the Local #295 business which are listed on Attachment #1. Mr. Forst made the decision to give these advances after having consulted with me. As chairman of the Board of the First Executive Corporation, he has the final responsibility on all major policy decisions regarding the Local #295 business.

I personally gave Mr. Cy Reeves Snyder the checks which were made payable to either him or his agency. The checks payable to Dina Gelman were picked up by Mr. Seymour Greenfield, at Miss Gelman's request.

I have had no connection with Mr. Louis C. Ostrer since the time Executive Life Insurance Company of New York became the insuring Company of Local #295 business. I did meet him once at a breakfast at which Mr. Forst was also present. At this time the Local #295 Severance Trust Fund business was discussed in general terms. Also, I am of the understanding that Mr. Ostrer is connected with Fringe Programs, Inc., the administrators of the Local #295 Fund. However, I am not sure in what capacity Mr. Ostrer is connected with Fringe Programs.

The above statements are true and correct to the best of my knowledge.

NORBERT F. LOCHNER.

Sworn to before me this 12 day of June, 1972:

FRANCES D. RUSSELL,
Notary Public, State of New York.

Qualified in New York County; my Commission Expires March 30, 1973.

LOANS

Payee and date	Check No.	Amount	Loans
Cy R. Snyder: Dec. 17, 1970	6592	$25,000.00	
Cy Reeves Snyder: Dec. 17, 1970	6593	50,000.00	
Do	6651	25,000.00	
Cy R. Snyder: Jan. 25, 1971	6944	50,000.00	
Cy R. Snyder Agency, Inc.:			
Jan. 25, 1971	6945	35,000.00	
Jan. 28, 1971	6946	150,000.00	
Dina Gelman:			
Mar. 4, 1971	610	2,232.47	Commission.
Apr. 12, 1971	1155	50,000.00	
Apr. 5, 1971	1063	22,129.87	Do.
Apr. 9, 1971	1145	22,154.09	Do.
Total		431,516.43	

APPENDIX XIII

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

399
№ 610
1-8
210

PAY

DINA GELMAN

TO THE ORDER OF

EXECUTIVE LIFE
P.A.I.D.
F.N.C.B.
MAR

ED2232 AND 47 CTS

DATE 3/4/71

AMOUNT $2,232.47

GENERAL ACCOUNT

FIRST NATIONAL CITY BANK
399 PARK AVENUE
NEW YORK, N. Y. 10022

:0210=0008: 00132556" "0000223247

UNDERWRITERS TRUST CO
NEW YORK N.Y.
1.704

1071 123 589

THE BANK OF NEW YORK

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

399
№ 1063
1-8
210

PAY

DINA GELMAN

TO THE ORDER OF

EXECUTIVE LIFE
P.A.I.D.
F.N.C.B.
APR 13 1971
NEW YORK

ED2,100 AND 00 CTS

DATE 4/5/71

AMOUNT $22,129.87

GENERAL ACCOUNT

FIRST NATIONAL CITY BANK
399 PARK AVENUE
NEW YORK, N. Y. 10022

AUTHORIZED SIGNATURE
DO NOT DESTROY

:0210=0008: 00132556" "0000221298

THE BANK OF NEW YORK

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

№ 1126

PAY [illegible] AND 05 CTS

DATE 4/9/71

AMOUNT $32,154.00

GENERAL ACCOUNT

APR 12 1971

FIRST NATIONAL CITY BANK
399 PARK AVENUE
NEW YORK, N.Y. 10022

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

№ 1165

PAY [illegible]

DATE 4/12/71

AMOUNT $50,000.00

GENERAL ACCOUNT

FIRST NATIONAL CITY BANK
399 PARK AVENUE
NEW YORK, N.Y. 10022

APPENDIX XIV

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

№ 443 399 1-8/210

PAY

TO THE ORDER OF

F.N.C.B. N.Y. FEB 28 71

EXECUTIVE LIFE $25000 AND 00 CTS

DINA GELMAN
384 Fifth Avenue
New York, New York

DATE 2/22/71 AMOUNT $25,000.00

GENERAL ACCOUNT

Dianne M. Thiessen

FIRST NATIONAL CITY BANK
399 PARK AVENUE
NEW YORK, N.Y. 10022

⑈0210⑈0008⑆ 00132556⑈ ⑈000250000⑈

Rec'd Feb 28 71
Letter Agreement dated

EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

№ 1463 330 1-8/210

PAY

TO THE ORDER OF

DINA GELMAN
384 Fifth Avenue
New York, New York

DATE 5/14/71 AMOUNT $5,071.68

GENERAL ACCOUNT

Dianne M. Thiessen

FIRST NATIONAL CITY BANK
399 PARK AVENUE
NEW YORK, N.Y. 10022

⑈0210⑈0008⑆ 00132556⑈ ⑈000507168⑈

FIRST NATIONAL CITY BANK

399 PARK AVENUE, NEW YORK, N.Y. 10022

1-8
210

2610093 2610093

DATE 6/22/71 22

PAY ********TWENTY THOUSAND AND 00/100*** DOLLARS $20,000.00**

PURSUANT TO INSTRUCTIONS OF ACCOUNT NUMBER

0013-2556

EXECUTIVE LIFE INSURANCE CO. OF N. Y.

TO THE ORDER OF

DINA GELMAN

PAID

JUN 23 1971

1/8

AUTHORIZED SIGNATURE

"2610093" :0210-00081: 809998 9"

Dina Gelman
Ok to cash
Christian
Asst V.P.

1-8

1 22

756

7/1/71

APPENDIX XV

AFFIDAVIT

STATE OF CALIFORNIA *County of Los Angeles, ss:*

Russell J. Lasher, being duly sworn, deposes and says:

First, that I make this Affidavit at the request of Robert Dunne, Assistant Counsel of the United States Senate Committee on Government Operations, Permanent Subcommittee on Investigations. Harry O. Miller, Esq., General Counsel of First Executive Corporation, Executive Life Insurance Company and Executive Life Insurance Company of New York, has been given the opportunity of reviewing this Affidavit prior to my signature of it. I understand that this Affidavit may be used in lieu of my testimony in an executive session or public hearing of the Subcommittee. I have been given a copy of the current rules and resolutions, I understand that the Subcommittee's inquiry is concerned with the propriety of the insurance aspects of labor/management severance plans involving Louis Ostrer.

Second, I am Financial Vice President and Treasurer of First Executive Corporation, a Delaware corporation, which is a holding company for several companies, two of which are Executive Life Insurance Company and Executive Life Insurance Company of New York. As Financial Vice President and Treasurer, I am responsible for accounting functions for Executive Life Insurance Company and Executive Life Insurance Company of New York.

Third, I have reviewed the attached photostatic copies of checks and the attached accountings, and state that to the best of my knowledge and belief the accountings contain all transactions involving the disbursement of funds to agents involved in writing insurance in connection with Local 295 severance programs of Executive Life Insurance Company and Executive Life Insurance Company of New York, and that the copies of checks attached hereto and described as follows are all of the checks by either company in connection with payments or loans to such agents.

Payee: Dina Gelman.—All checks drawn on Executive Life Insurance Company of New York Account Number 00132556, First National City Bank, New York, N.Y.

Check No.	Date	Amount
443	Feb. 22, 1971	$25,000.00
610	Mar. 4, 1971	2,232.47
1063	Apr. 5, 1971	22,129.87
1148	Apr. 9, 1971	22,154.09
1155	Apr. 12, 1971	50,000.00
1466	May 14, 1971	5,671.88
Draft No. 2610093	June 22, 1971	20,000.00

Payee. Cy Reeves Snyder.—All checks drawn on Executive Life Insurance Company of New York Account Number 005–75540–9, Marine Midland Grace Trust Company, New York, N.Y.

Check No.	Date	Amount
6592	Dec. 17, 1970	$25,000
6593	do	50,000
6651	Dec. 21, 1970	25,000
6944	Jan. 25, 1971	50,000
6945	do	35,000
6946	do	150,000

RUSSELL J. LASHER.

On August 30, 1972, before me, the undersigned, a Notary Public in and for said State, personally appeared Russell J. Lasher, known to me to be the person whose name is subscribed to the within Affidavit, and acknowledged to me that he executed the same.

Witness my hand and official seal.

FRANCES MOSS,
Notary Public California.

My Commission Expires February 3, 1973.

APPENDIX XVI

COUNTY OF NEW YORK,
State of New York,

I, Joseph J. Warren, President of The Trans World Life Insurance Company of New York (Trans World) 511 Fifth Avenue, New York, N.Y., having been advised of my rights, make the following statements voluntarily and freely to John Tschirhart and Michael Cesario who have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. I have not been coerced or intimidated in any way.

In September 1971, Mr. Seymour Greenfield, principal of Viscount Agency Inc. (Viscount) a general agent of Trans World, called for an appointment to see Mr. William Kaelin, a director of Trans World, and myself. The meeting was subsequently held, at which time Greenfield discussed the Local #295 Severance Fund. He explained that the first tier of the plan, beginning December 1, 1970, had been written by Executive Life Insurance Company of New York (Executive). He asked us whether we would be willing to write insurance for the second tier of the plan beginning December 1, 1971. This business was contingent on a series of advances totalling $100,000 to Viscount, against first-year commissions, prior to bringing in the case.

Greenfield estimated that 1,200–1,500 people would be included in the plan. He explained that Executive was not handling the second tier of the plan since it was preferable to spread the risk of the severance plan over several insurance companies, rather than have the entire risk borne by only one, and that the Trustees felt they would get better service if more than one company was involved.

We ascertained that the claim experience of Executive for the first year was higher than normal (approximately $100,000 for the January–September 1971 period as against $65,000 expected from mortality tables). However, this claim experience was not so high as to materially affect our decision on this matter. A much larger concern of ours was advancing the $100,000 against first-year commissions since this was an appreciable amount for a relatively small insurance company like Trans World.

Management felt that resolution of the problem basically was an operating decision and, consequently, approval of the Board of Directors was not required. Nevertheless, because of the size of the advance requested by Viscount and the uncertainty as to whether the fringe benefit program itself would be permissible under forthcoming Phase II guidelines, we kept the Directors fully informed on this matter at informal meetings on September 15, 16 and 17, 1971.

The management of Trans World finally decided to accept Mr. Greenfield's offer regarding Local 295 in late September 1971. As additional security for the loan, Trans World had Seymour and Bertha Greenfield personally guarantee payment of the promissory notes of Viscount for the $100,000 in advances Mr. Greenfield had requested, and also had them pledge all the issued and outstanding stock of Viscount as collateral security. On September 22, 1971, the first advance check was given to Viscount.

As another condition to Trans World making the advances was some assurance that we actually would be selected by the Local as the insurance carrier of record for the second tier of the plan beginning December 1, 1971, if permitted by Phase II. On October 6, 1971, we received from Local 295 Severance Fund a $10,000 deposit premium and a letter evidencing the Local's intention of insuring with us. On November 29, 1971, we received an additional $30,000 which, together with the $10,000, represented approximately one month's premiums and would effectively put in force the second tier of the Local 295 Severance Fund on December 1, 1971.

Compensation to Viscount Agency

Trans World first began in June 1968 to write insurancc for Severance Plans with Viscount, which was one of our general agents. We compensated Viscount at the same rate for this Severance Plan business as we had previously compensated it for other business. The first plan was The Severance Bonus Plan of Automotive Mechanics—Local 447 IAMAW District 15. Additional plans were brought to us by Viscount after 1968, including Local #320, Production Sales and Service Employees Union; Local #110, Warehouse and Novelty Union; and the Industrial Production Employees Union. However, we foresaw that our surplus could be eroded it we continued to pay the high first-year commissions and allowances on large amounts of such business in the future. We sought an alternative that would allow us to continue writing new union severance business, while lessening the drain on surplus.

The result was an agreement signed with Viscount on February 27, 1970, covering Severance Funds of Local 447 IAMAW District 15, Production Sales & Service Severance Fund, Local 110 Severance Fund, Industrial Production Employees Severance Fund, and any other severance programs of similar design. This agreement reduced the first year's compensation to 60% of premium which was approximately one half of what had formerly been paid. However, it increased compensation to the general agent from the second through the tenth years through the means of a persistency bonus of 15% of premiums in the second through fifth years, and 5% of premiums in the sixth through tenth years. Another advantage of this persistency bonus agreement would be that no compensation would have to be paid on terminations, some of which are inevitable under severance plans. Taking all things into consideration, the total payout was approximately the same as under the old agreement. However, the drain on current surplus was not nearly as heavy as where it was all paid out the first year.

Change to Dina Gelman Agency

About the middle of November 1971, Mr. Greenfield requested that we appoint Dina Gelman as general agent for the Local 295 business in lieu of his Viscount Agency. There had been no mention of such a possibility at any prior meeting. However, he explained that Dina Gelman was general agent for the first tier of the Local 295 Severance Plan for Executive and that it would be consistent to keep her as general agent on the second tier with Trans World. I was initially reluctant about switching general agents on the Local 295 business, as this was against our general policy. However, Dina Gelman was a duly licensed agent for Viscount with Trans World. She had also been a general agent since December 1, 1970 with Executive, and we had also received a favorable Retail Credit report. In view of the above and since Viscount itself made the request and Local 295 approved, we agreed to the change in general agents.

Compensation to Dina Gelman

A general agents agreement with Dina Gelman Agency now became necessary. We would have preferred to write it in the same form as the persistency bonus agreement signed with Viscount on February 27, 1970. However, on November 26, 1971, the State of New York Insurance Department expressed its view that persistency bonus agreements were contrary to the insurance law. We took issue with the Department's view; but, until the matter was resolved, we necessarily could not write a persistency bonus agreement with the Dina Gelman Agency. Instead, the agreement, signed on and effective as of December 1, 1971, provides for 55% of first year's premiums as commissions, along with an additional 63.5% of the 55% commissions as an agency development allowance, for a total compensation of about 90% of premiums in the first year. Agency development allowances are customarily given in cases where the general agency has been in business less than five years.

The total compensation of 90% to Dina Gelman is less than that normally given in the first year under Trans World's usual practice with its general agents for comparable whole life insurance. Moreover, Dina Gelman felt that since negotiations on the Local 295 business had begun in September 1971, prior to the Department's taking its position on persistency bonus agreements on November 26, 1971, she should not be affected by that decision and should receive compensation similar to and equal to that received by Viscount under the February 27, 1970 agreement. She has expressed her unhappiness with the current agreement to Trans World in writing, and we have forwarded a copy of her letter to the State of New York Insurance Department.

Advances

We have advanced Dina Gelman Agency a total of $481,724.25 as per the attached schedule (Attachment #1). Those advances through January 1972, totalling $460,000 represent annualization of the commissions on estimated first year premiums. These premiums were anticipated to be about $43,000 per month, or $516,000 per year, which would mean that the general agent would receive 90% or $464,400. However, it was not advanced all at once, but in several payments to match the availability of funds at Trans World. The first $140,000, was originally paid to Viscount. Subsequently, when Dina Gelman became the general agent, she assumed liability for this $140,000. After January 1972, we advanced a further $21,724.25 in two payments in May 1972, for the annualization of commissions due on new employee members of Local 295, making a grand total of $481,724.25.

In addition, two payments totalling $75,000 ($50,000 on January 14, 1972 and $25,000 on January 27, 1972) were given as advances on the third tier of the Severance Plan beginning on December 31, 1972. However, in checking with the Local 295 Severance Fund, we learned that the Local 295 Severance Fund had not yet decided which insurance company would write the insurance for the third tier of the plan. Accordingly, we requested Dina Gelman Agency to refund this $75,000; and they repaid it in two checks dated April 26, 1972, of $50,000 and $25,000.

As I have previously stated, Seymour and Bertha Greenfield, as principals of Viscount Agency, signed promissory notes for the $140,000 advanced to them, personally guaranteed the loans and pledged all the issued and outstanding stock of Viscount. It is now our intention to return the notes and stock to Viscount since Dina Gelman assumed this liability when she became general agent of record. Her assumption of liability is evidenced by her signing a confirmation request from our auditors, Peat, Marwick, Mitchell & Company, for a sum which included the $140,000 as an advance to her. Although she signed promissory notes for the $100,000 advance on December 1, 1971, and the $60,000 advance on December 3, 1971, our counsel feels that further notes for the additional $181,724.25 are unnecessary in view of paragraph 10 of the general agents agreement which permits offsets against commissions earned by general agents.

After Mr. O'Brien and I signed the first advance check payable to Dina Gelman, drawn on Bank of Commerce ($100,000 on December 1, 1971) she picked it up at Trans World offices. She went to the Bank of Commerce; and Mr. Hertrick of the Bank called me and said that she was there and had requested to take some of this money out in cash immediately. He asked me to verify the signature of Dina Gelman on the check. She returned with the check and I affixed "Signature O.K.—J. J. Warren" on the back of the check.

In order to preclude a similar occurrence from happening in the future, either Mr. O'Brien or I, as a matter of routine, affixed the "Signature—O.K." on the back of several later advance checks. I have no knowledge as to what Dina Gelman did with any of these later checks, nor do I remember any other facts concerning them. She merely picked the checks up here at Trans World, usually alone, although I do remember her being accompanied once by Mr. William Kilroy, who is an agent of Viscount Agency and licensed with Trans World. The most recent check of $6,724.25, dated May 11, 1972, was picked up by Dina Gelman's son, William.

At present, our procedure is to make up the monthly invoice which we turn over to Dina Gelman for transmittal to the Local 295 Severance Fund. At a later date, Dina Gelman remits the premiums invoiced to Trans World. In addition, Dina Gelman handles the routine billing and administrative procedures in connection with the Local 295 Severance Fund and Trans World.

The only contact Trans World has with Mr. Louis Ostrer is when administrative matters assumed larger significance. He appears to act as a spokesman for the Fund in such situations.

So far, gross claims have been about $50,000 for Local 295 Severance Fund of which Trans World has paid $40,000. The remainder has been paid by Security Benefit Life Insurance Company of Topeka, Kansas under a reinsurance treaty.

NEW BUSINESS

A. Dina Gelman Agency

This Agency has not as yet written any additional business with Trans World aside from Local 295. Since we are paying the Agency a development allowance, we expect it to develop not only additional severance fund business, but to expand in all fields of general insurance. To that end, the Dina Gelman Agency has recently licensed a new writing agent, and we are pressing for additional agents.

B. Viscount

We have recently begun writing insurance for the International Production Sales and Service Employees Union Severance Fund with Viscount as our general agent. Mr. Greenfield has informed us this Union has a potential of 12,000—18,000 lives within a period of three years. At present, we have advanced $216,000 to Viscount against first year commissions and allowances for the following locals of this union: Locals 222, 719, 517, 422, 815, and 106. This severance fund is based on contributions of $.05 per hour.

The above statements are true and correct to the best of my knowledge.

JOSEPH J. WARREN.

Sworn to before me this 19th day of June in the year 1972.

ARTHUR B. FREELAND,
Notary Public, State of New York.

Qualified in Queens County, Commission Expires March 30, 1974.

ADVANCES

Payee and date	Check No.	Amount, agency	Total advances
Viscount Agency, Inc.:			
Sept. 22, 1971	20522	$25,000.00	----------
Do	20523	25,000.00	----------
Oct. 8, 1971	20919	15,000.00	----------
Do	20920	15,000.00	----------
Oct. 18, 1971	21145	20,000.00	----------
Nov. 29, 1971	22152	10,000.00	----------
Nov. 30, 1971	22169	30,000.00	----------
Total		140,000.00	----------
Dina Gelman Agency:			
Dec. 1, 1971	22191	100,000.00	----------
Dec. 3, 1971	22253	60,000.00	----------
Dec. 17, 1971	22709	40,000.00	----------
Jan. 4, 1972	22969	30,000.00	----------
Jan. 6, 1972	23072	70,000.00	----------
Jan. 10, 1972	23144	20,000.00	----------
Jan. 14, 1972	23345	50,000.00	----------
Jan. 27, 1972	23709	25,000.00	----------
Total		395,000.00	$535,000.00
Less. Advances of Jan. 14, 1972, and Jan. 27, 1972, refunded on Apr. 26, 1972		75,000.00	75,000.00
		320,000.00	460,000.00
Dina Gelman Agency:			
May 5, 1972		15,000.00	----------
May 11, 1972		6,724.25	----------
Advances due to new entrants in severance plan		21,724.25	21,724.25
Grand total		341,724.25	481,724.25

APPENDIX XVII

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

20522

Sept. 22, 1971

PAY ~~Seventy-Five Hundred~~ DOLLARS $25,000.00

TO THE ORDER OF
Viscount Agency, Inc.
384 Fifth Avenue
New York, New York 10018

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 05536 ⑈0002500000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

20523

Sept. 22, 1971

PAY ~~Seventy-Five Hundred~~ DOLLARS $ 25,000.00

TO THE ORDER OF
Viscount Agency, Inc.
384 Fifth Avenue
New York, New York 10018

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 05536 ⑈0002500000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

20919

October 8, 1971

PAY ~~Seventy-Five Hundred~~ DOLLARS $15,000.00

TO THE ORDER OF
Viscount Agency, Inc.

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 05536 ⑈0001500000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

20920

October 8, 1971

PAY ~~Seventy-Five Hundred~~ DOLLARS $ 15,000.00

TO THE ORDER OF
Viscount Agency, Inc.

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 05536 ⑈0001500000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

21145

1-750
260

Oct. 18, 19 71

PAY [illegible] DOLLARS $ 20,000.00

TO THE ORDER OF Viscount Agency Inc.

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑈0750⑆ 40⑈05536 1⑈ ⑈0002000000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

22152

November 29, 19 71

1-750
260

PAY [illegible] DOLLARS $ 10,000.00

TO THE ORDER OF Viscount Agency, Inc.

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑈0750⑆ 40⑈05536 1⑈ ⑈0001000000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

22169

Nov. 30, 19 71

1-750
260

PAY [illegible] DOLLARS $ 30,000.00

TO THE ORDER OF Viscount Agency, Inc.

GENERAL ACCOUNT

BANK OF COMMERCE
50 East 42nd Street, New York, N.Y.

⑆0260⑈0750⑆ 40⑈05536 1⑈ ⑈0003000000⑈

APPENDIX XVIII

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

22191

December 1, 19 71 1-750/260

PAY Twenty Thousand and 00/100 DOLLARS $100,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

BANK OF COMMERCE
56 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ ⑈05536 ⑈0010000000⑈

Dina M. Gelman Agency
Dina M. Gelman
Authorized Signature
Dina Gelman

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

22253

December 3, 1971 1-750/260

PAY Sixty Thousand and 00/100 DOLLARS $ 60,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

BANK OF COMMERCE
56 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ ⑈05536 ⑈0006000000⑈

Dina M. Gelman Agency
Dina M. Gelman
Authorized Signature
Dina Gelman

(3)

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

22709

Dec. 17, 19 71 1-750/260

PAY [redacted] DOLLARS $40,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

6

BANK OF COMMERCE
60 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 40⑈05536 1⑈ ⑈0004000000⑈

(3)

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

22969

Jan. 4, 1972 1-750/260

PAY [redacted] DOLLARS $30,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

6

BANK OF COMMERCE
60 East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 40⑈05536 1⑈ ⑈0003000000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

23072

Jan. 6, 1972 1-750/260

PAY Seventy thousand 00 CTS DOLLARS $70,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

BANK OF COMMERCE
56 East 42nd Street, New York, N.Y. ⑆026007505⑆ 40-05536 1⑈ ⑈0007000000⑈

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

23144

Jan. 10, 19 72 1-750/260

PAY Twenty thousand 00 CTS DOLLARS $20,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

BANK OF COMMERCE
56 East 42nd Street, New York, N.Y. ⑆026007505⑆ 40-05536 1⑈ ⑈0002000000⑈

APPENDIX XIX

DECEMBER 10, 1971.

Memorandum to: John P. Constandy.
From: Stephen B. King.
Subject: Interview and affidavit of Henry Brown re Louis Ostrer.

The attached affidavit was taken by King and Ed Straub in our office on December 9, 1971.

While Brown cannot specifically recall to whom he gave cash regarding the cashing of a check for $50,000 issued by the Executive Life Insurance Company of New York to Cy R. Snyder he readily admits cashing checks made out to various Ostrer associates and/or organizations and giving cash to Ostrer.

* * * * * * *

COUNTY OF NEW YORK,
State of New York, ss:

I, Henry Brown, 2185 Valentine Avenue, the Bronx, New York, having been advised of my rights, make the following statements voluntarily and freely to Stephen B. King and Edward Straub who have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. No coercion or intimidation have been made to me.

For the past 40 years I have been in the factoring business in New York City. For 35 years I owned and operated Midtown Commercial Corp. at 301 W. 39th Street, New York City. As a factor I have known Louis Ostrer for approximately 15 years. I would estimate that in the past 3 years I have cashed $1,000,000 worth of checks for Louis Ostrer. I am sure that I am the only factor with which Ostrer deals. Louis Ostrer currently owes me about $260,000 through loans and other dealings. I expect to collect this money.

I know Louis Ostrer to have many business operations, the principal one being insurance. Until he got in trouble he was an outstanding insurance salesman. Now that his license to sell insurance has been revoked, I know him to be associated with or employ the following individuals or organizations:

Dina Gelman, Seymour Greenfield, Cy Reeves Snyder, William Kilroy, Julius November, Esq., Ben Wolf, CPA.

Fringe Programs, Inc., Sutter Agency, Inc., Modern Agency, Inc., Viscount Agency, Inc., Cy Reeves Snyder Agency, Dina Gelman Agency.

Ostrer has developed a program for unions which he administers by the way Fringe Programs, Inc. Insurance policies on individual union members is the main feature of the program. Ostrer expects to make a lot of money from this plan for which I am hopeful because it means I will get the money he owes me.

Regarding the plan for unions, Ostrer has brought to me on occasions checks for cashing. Most of these checks were in the name of the above-mentioned individuals and/or organizations. I would never cash any checks for these people unless Louis Ostrer had approved the transaction. Many times Ostrer, accompanied by one or two of these people would come to my office where I would cash the checks. If they were for large amounts I would have to go to my bank, the National Bank of North America, located at 7th Avenue and 38th Street, New York City. My account number is XXXXXXXX Ostrer would either take the money and put it in his pockets or stuff it in his bosom, or divide it up among his associate/s with instructions for the dissemination of it. Kilroy, who often accompanied Ostrer, acted as a bodyguard; he carries a gun for which I believe he has a permit.

I remember cashing a check for Ostrer on about January 25, 1971 for $50,000. I remember the check being made out to Cy R. Snyder and endorsed with that signature. Cy R. Snyder is known to me as Cy Reeves, a comedian who resides in Miami, Florida. I do not recall who brought the check, or to whom I gave the money or in what amounts. It is unlikely I gave the whole $50,000. It may have been spread over a couple of days, or Ostrer's obligations to me reduced by a certain amount. I keep no records and therefore am unable to specifically recall the details of this transaction.

When in business (I have been retired for the past 5 years) my charge to Ostrer was one point or percent for check cashing and two percent per month on the outstanding balance of his obligations to me.

I specifically remember Ostrer bringing me a cashier's check on the Kings Lafayette Bank, New York, for $25,000 on about January 27, 1971. I retained this money and reduced Ostrer's obligation to me by that amount.

Ostrer now takes most of his checks to Rego Trading Corporation, located at 301 W. 39th Street, New York City, which succeeded Midtown Commercial. I still see Ostrer often and occasionally still cash checks and loan him money.

The above statements are true and correct to the best of my knowledge.

HENRY BROWN.

Sworn to before me this 9th day of December, 1971:

MOLLY E. BROWN,
Notary Public State of New York.

Qualified in New York County, Commission Expires March 30, 1971.

COUNTY OF NEW YORK,
State of New York, ss:

I, Henry Brown, 2185 Valentine Avenue, Bronx, New York, having been advised of my rights, make the following statements voluntarily and freely to John Tschirhart and Michael Cesario who have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. I have not been coerced or intimidated in any way.

For the past 40 years I have been in the factoring business in New York City. For 35 years I owned and operated Midtown Commercial Corporation at 301 West 39th Street, New York City. I no longer operate as Midtown Commercial Corporation, having retired from this capacity five years ago.

As a factor I have known Louis C. Ostrer for approximately 15 years and have cashed approximately $1,000,000 in checks for him during the past three years. At the present time, I still have considerable dealings with Mr. Ostrer. In fact, Mr. Ostrer currently owes me about $250,000.

Because I keep no records, I cannot recall the details of specific transactions I have had with Mr. Ostrer. However, in general, Mr. Louis C. Ostrer or Mr. Seymour Greenfield would contact me concerning the cashing of a check they had in their possession or the advancing of funds on a check which they expected to receive in the near future. I would cash the check in question or advance the money on the expected check, giving the money to Mr. Ostrer or Mr. Greenfield or one of their associates—either a Mr. William Kilroy, Mr. William Felner, or Mr. Sonny Ratoff who is my nephew. Mr. S. Ratoff is no longer employed as an associate of Mr. Ostrer or Mr. Greenfield. However, I would only cash checks or advance money at either Mr. Ostrer's or Mr. Greenfield's direction. For these services, I would charge only a nominal fee—such as $50.00 or $100.00 depending upon the amount of the check.

With regard to the attached checks:

(1) Check # 6944 from Executive Life Insurance Company of New York dated 1/25/71, payable to Cy R. Snyder for $50,000 (attachment #1)—

I cashed this check for either Mr. Ostrer or Mr. Greenfield and deposited the check in my account. As I stated previously, either Messrs. Ostrer, Greenfield, or one of their associates (Messrs. Kilroy, Felner, or Ratoff) was given the $50,000 in cash. I did not give the cash to Mr. Cy Reeves Snyder, the payee of the check. From previous conversation I had with Mr. Snyder, however, I knew he approved of the transactions. In fact, he told me that Messrs. Ostrer and Greenfield had a Power of Attorney to use his signature.

(2) Check #6945 from Executive Life Insurance Company of New York dated 1/25/71, payable to Cy R. Snyder Agency, Inc., for $35,000 (attachment #2)—

I cashed this check for Mr. Ostrer or Mr. Greenfield, giving them or their associates a total of $35,000 in cash. As with the preceding check, Mr. Snyder approved of this transaction.

(3) Check #20523 from Trans World Life Insurance Company, dated 9/22/71, payable to Viscount Agency, Inc., for $25,000 (attachment #3)—

I cashed this check for Mr. Greenfield giving him or his associates (Mr. Kilroy, Mr. Felner, or Mr. Ratoff) $25,000 in cash.

(4) Check # 21145 from Trans World Life Insurance Company, dated 10/18/71, payable to Viscount Agency, Inc., for $20,000 (attachment # 4)—

I cashed this check for Mr. Greenfield giving him, or his associates, $20,000 in cash.

Some of the cash given on the above four (4) checks may have been advanced up to several weeks before I was actually presented with the checks. In such cases, upon receipt of the check I would merely offset against the face amount of the check the monies advanced against it and give Messrs. Ostrer, Greenfield or their associates, only the remaining amount due on the check. However, in any event, I gave cash for the full face amount of these checks either before or after I received them.

The above statements are true and correct to the best of my knowledge.

HENRY BROWN.

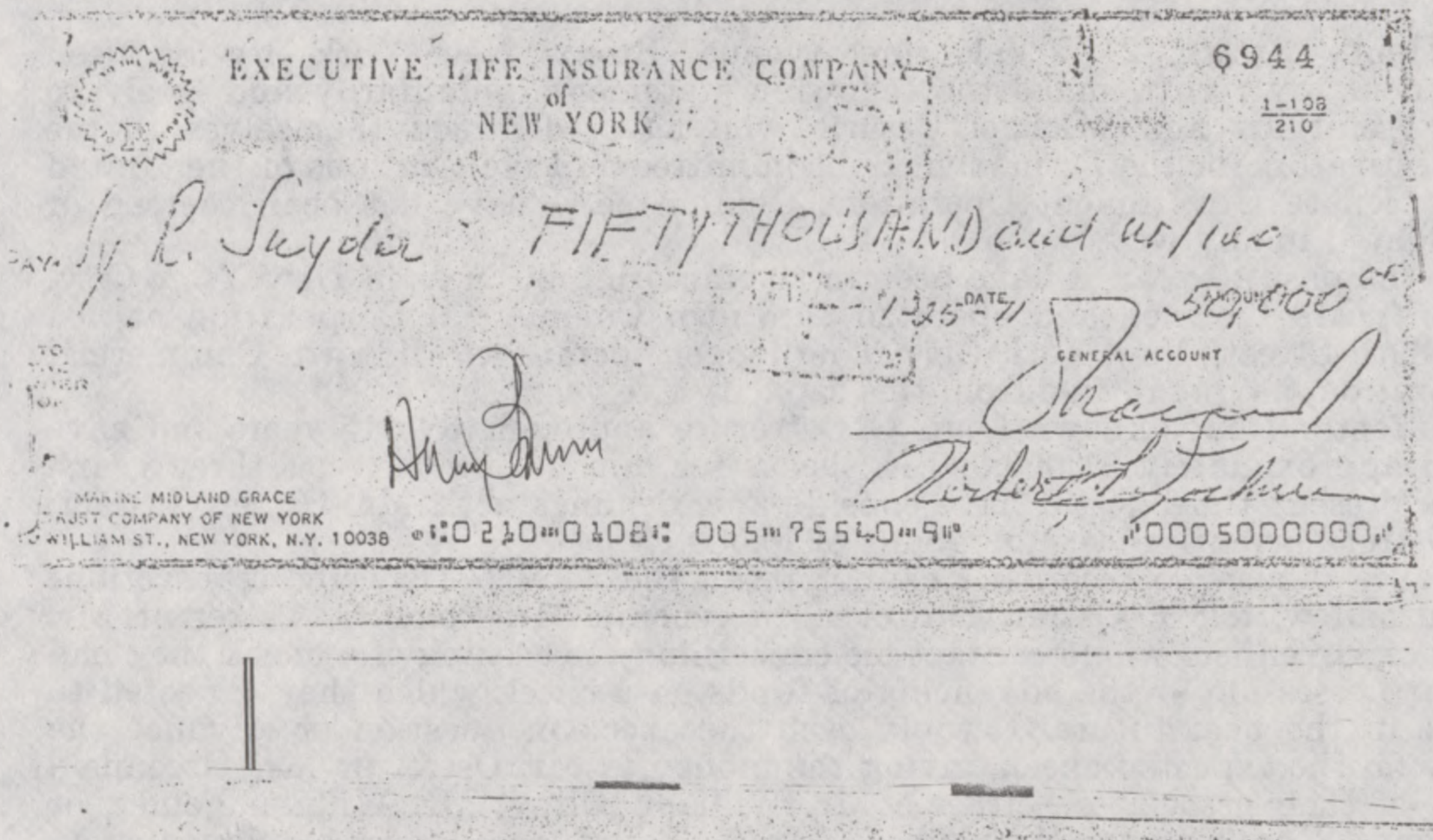
Sworn to before me this 16th day of June in the year 1972 A.D.

PEARL STARK.

Notary Public, State of New York.

Qualified in Nassau County, Commission Expires March 30, 1973.

ATTACHMENT No. 1.—Check No. 6944—dated January 25, 1971: Payee: Cy R. Snyder; Amount, $50,000


EXECUTIVE LIFE INSURANCE COMPANY
of
NEW YORK

6944

1-103
210

PAY Cy R. Snyder FIFTY THOUSAND and 00/100

1-25-71 DATE 50,000 00

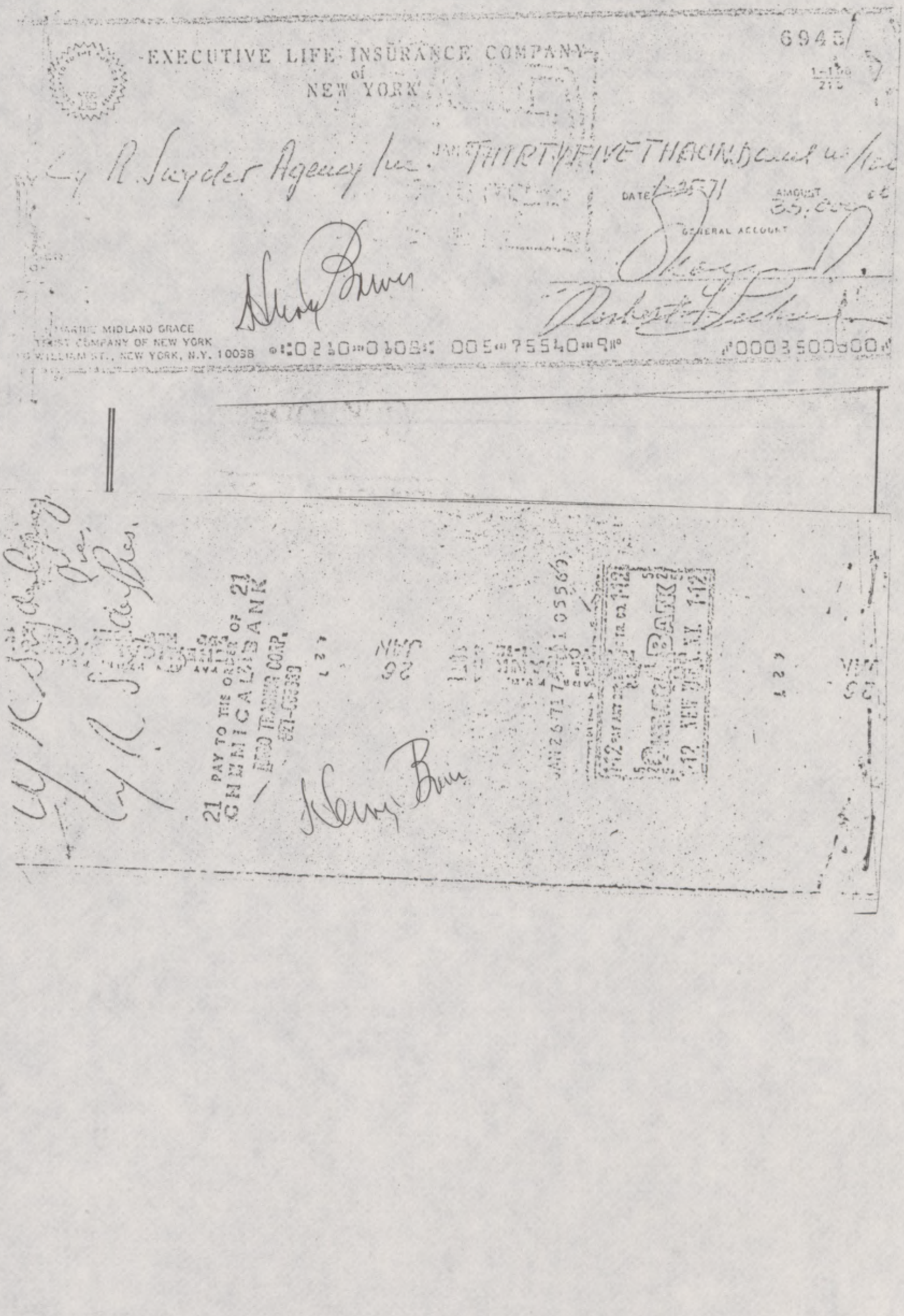
TO THE ORDER OF

GENERAL ACCOUNT

MARINE MIDLAND GRACE TRUST COMPANY OF NEW YORK
140 WILLIAM ST., NEW YORK, N.Y. 10038

⑆0210⑆0108⑆ 005⑈7554⑆9⑈ ⑈0005000000⑈

ATTACHMENT No. 2.—Check No. 6945—Dated January 25, 1971: Payee: Cy Reeves Snyder Agency, Inc.; Amount, $35,000



ATTACHMENT No. 3.—Check No. 20523—Dated September 22, 1971: Payee: Viscount Agency, Inc.; Amount, $25,000

THE TRANS WORLD LIFE INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

20523

Sept. 22, 19 71

1-750/260

PAY Twenty-five thousand and 00/100

DOLLARS $25,000.00

GENERAL ACCOUNT

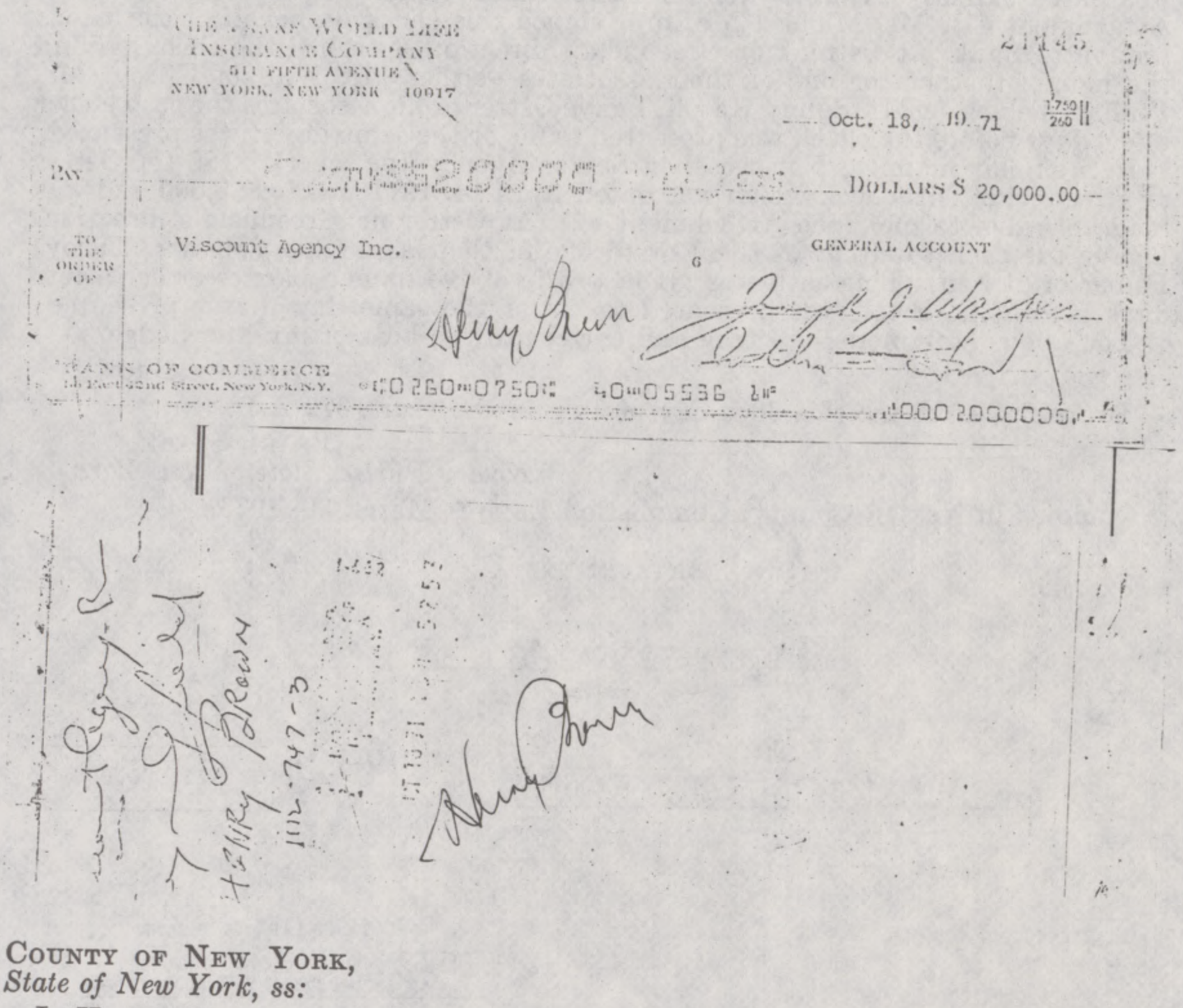
TO THE ORDER OF
Viscount Agency, Inc.
384 Fifth Avenue
New York, New York 10018

BANK OF COMMERCE
60 East 42nd Street, New York, N.Y.

⑈0260⑈0750⑆ 05536 ⑈0002500000⑈

Viscount Agency, Inc.
Harry Brown
1112 747-3
⑆221 0551⑆

ATTACHMENT No. 4.—Check No. 21145—Dated October 18, 1971: Payee: Viscount Agency, Inc.; Amount, $20,000



COUNTY OF NEW YORK,
State of New York, ss:

I, Henry Brown, 2185 Valentine Avenue, Bronx, New York, having been advised of my rights, make the following statements voluntarily and freely to John Tschirhart and Michael Cesario who have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. I have not been coerced or intimidated in any way.

Mr. Louis C. Ostrer or Mr. Seymour Greenfield contacted me concerning the cashing of Kings Lafayette Bank cashiers check #103–001918. This check which was dated January 27, 1971 was for $25,000 and was made payable to me (See Attachment #1). Mr. Michael McEnroe signed this check on behalf of the Kings Lafayette Bank. At Ostrer's or Greenfield's direction, I cashed the check; giving the money to them or one of their associates—either Mr. William Kilroy, Mr. William Felner, or Mr. Sonny Ratoff. I gave Ostrer or his associates the cash either a few days before the check was presented to me or the same day it was presented.

In a similar manner, I also cashed Sutter Agency Inc. check #186 for Ostrer or Greenfield. This check which was dated April 14, 1971 was for $5,000 and was made payable to me. (See Attachment #2). At Ostrer or Greenfield's direction, I gave the cash to either of them or to one of their associates (Messrs. Kilroy, Felner or Ratoff). This cash was given to the above named parties either a few days before the check was presented to me or the same day it was presented.

The above statements are true and correct to the best of my knowledge.

HENRY BROWN.

Sworn to before me this 28th day of July in the year 1972 A.D.

PEARL STARK,
Notary Public, State of New York.

Qualified in Nassau County, Commission Expires March 30, 1973.

ATTACHMENT 1

OFFICIAL CHECK

Kings Lafayette Bank
NEW YORK

1-371
260

103-001918

DATE 1/27/71

PAY 03 K.L.D. $25,000 and 00 CTS

AMOUNT
$25,000.00

TO THE ORDER OF

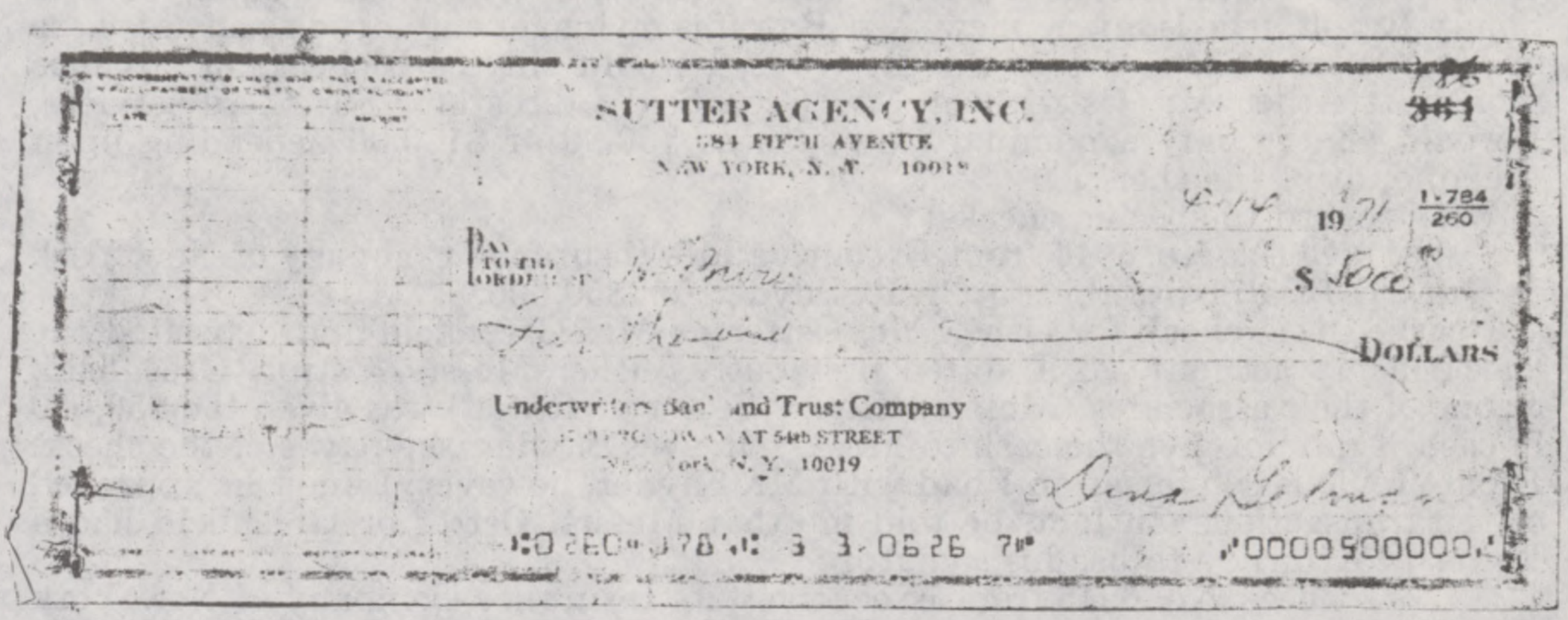
H. BROWN

KINGS LAFAYETTE BANK

Michael McEnroe
Authorized Signature

"103001918" "0260"0371" 007100000" "000250000"

ATTACHMENT 2


SUTTER AGENCY, INC.
384 FIFTH AVENUE
NEW YORK, N. Y. 10018

3151

19 71 1-784/260

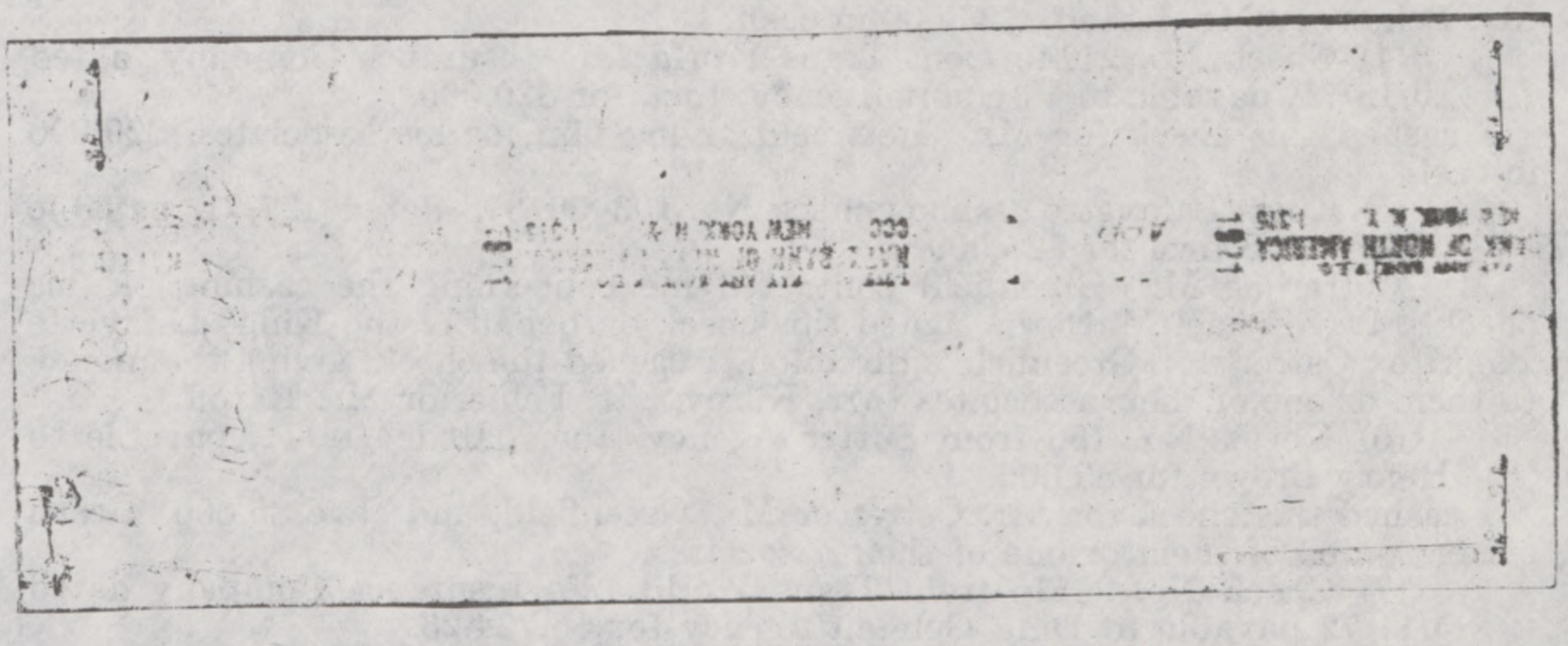
PAY TO THE ORDER OF H. Brown $ 500

Ten thousand DOLLARS

Underwriters Bank and Trust Company
[illegible] AT 54th STREET
New York, N. Y. 10019

Dena Selman

:0260078 4: 3 3-0626 7# :0000500000:



COUNTY OF NEW YORK,
State of New York, ss:

I. Henry Brown, 2185 Valentine Avenue, Bronx, New York, having been advised of my rights, make the following statements voluntarily and freely to John Tschirhart and Michael Cesario who have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. No threats or promises have been made to me to induce me to execute this statement. I freely consent to the placing of this affidavit into the record in any hearing, closed or public, of the above named Subcommittee.

For the past 40 years I have been in the factoring business in New York City. For 35 years I owned and operated Midtown Commercial Corporation at 301 West 39th Street, New York City. I no longer operate as Midtown Commercial Corporation, having retired from this capacity five years ago.

As a factor I have known Louis C. Ostrer for approximately 15 years and have cashed approximately $1,000,000 in checks for him during the past three years. At the present time, I still have considerable dealings with Mr. Ostrer. In fact, Mr. Ostrer currently owes me about $250,000.

Because I keep no records, I cannot recall the details of specific transactions I have had with Mr. Ostrer. However, in general, Mr. Ostrer or Mr. Seymour Greenfield would contact me concerning the cashing of a check they had in their possession or the advancing of funds on a check which they expected to receive in the near future. I would cash the check in question or advance the money

on the expected check, giving the money to Mr. Ostrer or Mr. Greenfield or one of their associates—either a Mr. William Kilroy, Mr. William Felner, or Mr. Sonny Ratoff, who is my nephew. Mr. Ratoff is no longer employed as an associate of Mr. Ostrer or Mr. Greenfield. However, I would only cash checks or advance money at either Mr. Ostrer's or Mr. Greenfield's direction. For these services, I would charge only a nominal fee—such as $50.00 or $100.00 depending upon the amount of the check.

With regard to specific checks:

(1) Check No. 6944 from Executive Life Insurance Company of New York dated 1/25/71 payable to Cy R. Snyder for $50,000.

I cashed this check for either Mr. Ostrer or Mr. Greenfield and deposited the check in my account. As I stated previously, either Messrs. Ostrer, Greenfield, or one of their associates (Messrs. Kilroy, Felner or Ratoff) was given the $50,000 in cash. I did not give the cash to Mr. Cy Reeves Snyder, the payee of the check. From previous conversation I had with Mr. Snyder, however, I knew he approved of the transactions. In fact, he told me that Messrs. Ostrer or Greenfield had a Power of Attorney to use his signature.

(2) Check No. 6945 from Executive Life Insurance Company of New York dated 1/25/71, payable to Cy R. Snyder Agency, Inc., for $35,000.

I cashed this check for Mr. Ostrer or Mr. Greenfield, giving them or their associates a total of $35,000 in cash. As with the preceding check Mr. Snyder approved of this transaction.

(3) Check No. 20523 from Trans World Life Insurance Company, dated 9/22/71. payable to Viscount Agency, Inc., for $25,000.

I cashed this check for Mr. Greenfield giving him or his associates (Mr. Kilroy, Mr. Felner, or Mr. Ratoff) $25,000 in cash.

(4) Check No. 21145 from Trans World Life Insurance Company, dated 10/18/71, payable to Viscount Agency, Inc., for $20,000.

I cashed this check for Mr. Greenfield giving him, or his associates, $20,000 in cash.

(5) Kings Lafayette cashiers check No. 103–001918 dated 127/71, payable to Henry Brown for $25,000.

Mr. Ostrer or Mr. Greenfield contacted me concerning the cashing of this check. Mr. Michael McEnroe signed this check on behalf of the Kings Lafayette Bank. At Ostrer's or Greenfield's direction, I cashed the check, giving the money to them or one of their associates (Mr. Kilroy, Mr. Felner or Mr. Ratoff.)

(6) Check No. 186 from Sutter Agency, Inc. dated 4/14/71, payable to Henry Brown for $5,000.

I cashed this check for Mr. Ostrer or Mr. Greenfield, and gave $5,000 in cash either to one of them or one of their associates.

(7) Check No. 26516 from Trans World Life Insurance Company dated 5/11/72 payable to Dina Gelman Agency for $6,724.25.

I cashed this check for Mr. Ostrer, Mr. Greenfield or Mrs. Gelman, and gave either to them or one of their associates $6,724.25 in cash.

Some of the cash given on the above seven (7) checks may have been advanced up to several weeks before I was actually presented with the checks. In such cases, upon receipt of the check I would merely offset against the face amount of the check the monies advanced against it and give Messrs. Ostrer, Greenfield or their associates only the remaining amount due on the check. However, in any event, I gave cash for the full face amount of these checks either before or after I received them.

I have read the foregoing affidavit of four pages, each of which I have initialed. To the best of my knowledge, the information contained herein is true and correct.

HENRY BROWN.

Sworn to before me this 8th day of September in the year 1972 A.D.

BARNUM BRICKIN,
Notary Public, State of New York.

Qualified in Nassau County, Commission Expires March 30, 1973.

APPENDIX XX

COUNTY OF KINGS
State of New York, ss.

I, Michael McEnroe, Vice President of the Kings Lafayette Bank, 200 Montague Street, Brooklyn, New York, having been advised of my rights, make the following statements voluntarily and freely to John Tschirhart and Michael Cesario who

have identified themselves to me as investigators for the Permanent Subcommittee on Investigations of the United States Senate Government Operations Committee. I have not been coerced or intimidated in any way.

I am a vice president of the Kings Lafayette Bank and have been connected with this organization for approximately 3½ years. My first contact with Mr. Louis C. Ostrer and Mr. Seymour Greenfield occurred in January 1971 after a meeting had been held on December 30, 1970, in which Haskell Wolf, the executive director of National Association for Air Freight introduced Ostrer, Greenfield, and the Local #295 Severence Trust Fund to Mr. Milton Vanderveer, Chairman of the Board of Kings Lafayette. Also present at this meeting representing the Kings Layfayette were vice presidents Mrs. Tum-Sudin and Mr. Arkwright. After having been introduced by Mr. Wolf, Ostrer explained the Severence Trust Fund and described the potential deposits to the bank resulting from this Fund. He also explained the investment aspect of the plan which was to be handled by our Trust Department, headed by Mr. Arkwright. It was apparent from the beginning that Ostrer was in charge. Subsequently, on January 6, 1971, the Modern Agency, Inc. account (#030061857) was opened with Seymour Greenfield, the secretary of the corporation, the only person authorized to sign for the account. In addition, Mr. Greenfield opened a personal account (#030062136) on January 27, 1971.

After I read a magazine article concerning thefts at J. F. Kennedy Airport in which Wolf, Tony Di Lorenzo, Ostrer, and Local #295 were prominently mentioned, I brought up the matter with Mr. John De Palma, President of the bank, who immediately instructed me to have the accounts closed. I called Greenfield and the accounts were both closed on February 22, 1971. Greenfield did not object nor did he seem too upset about the closing of the accounts.

On January 27, 1971, Ostrer, Greenfield, and another man whom I did not know, came into the bank and wanted to cash a $150,000 check from the Executive Life Insurance Company of New York, payable to Cy R. Snyder Agency. This check had a first endorsement of Cy R. Snyder Agency and a second endorsement of Modern Agency, Inc. I do not recall if the first endorsement was already on the check when it was presented for payment. However, I do know that Seymour Greenfield endorsed the check in the name of Modern Agency, Inc. Although Ostrer and Greenfield wanted the entire amount in cash, I was unable to accommodate them due to the large amount of the check. Therefore, I agreed to give them $60,000 in cash. These monies were given in denominations of $100 or less and were promptly stuffed into their pockets by Ostrer and Greenfield. I also gave them three (3) cashier's checks of $25,000 each. Mr. Ostrer directed these checks to be made out to Seymour Greenfield, Dina Gelman, and Henry Brown. The remaining $15,000 was deposited in the Modern Agency account.

Subsequently, on February 1, 1971, Seymour Greenfield presented the $25,000 cashier's check made out to him and I approved the cashing of it. On February 2, 1971, a $9,000 check drawn against the Modern Agency, Inc. account and made payable to William Kilroy was presented for payment. I also approved the cashing of this check. I have no knowledge of the disposition of the other two cashier's checks totaling $50,000, except that Dina Gelman's was deposited in the Sutter Agency, Inc., account at Underwriter's Trust Co., and Henry Brown's was paid to account #1112–747–3, at the National Bank of North America. Therefore, to my knowledge, $94,000 of the $150,000 check deposited was converted to cash by February 2, 1971.

The above statements are true and correct to the best of my knowledge.

MICHAEL MCENROE.

Sworn to before me this 14th day of July in the year 1972 A.D.

LEO HANNAN.

APPENDIX XXI

KINGS LAFAYETTE BANK,
New York, January 4, 1971.

CORPORATE RESOLUTIONS

I, as Secretary of Modern Agency, Inc. a corporation duly organized and existing under the laws of the State of New Jersey, hereby certify to the Kings Lafayette Bank that a meeting of the Board of Directors of said corporation was duly called and held at its Office in the City of Jersey City and State of New Jersey on the 4th day of January, 1971, that at said meeting a quorum was present and voting

throughout, and that the following resolutions on motion duly made and seconded were unanimously adopted and are now in full force and effect:

"*Resolved*, That Kings Lafayette Bank (hereinafter referred to as the "Bank") be and hereby is designated as a depositary of this corporation and that the officers and agents of this corporation be and hereby are, and each of them hereby is, authorized to deposit any of the funds of this corporation in said Bank,

Resolved, That, until the further order of this Board of Directors, any funds of this corporation deposited in said Bank be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed on behalf of this corporation, by any one of the following: Seymour Greenfield, Secretary.[1]

Resolved, That the Bank is hereby authorized to pay any such instrument or make any such charge and also to receive the same from the payee or any other holder without inquiry as to the circumstances of issue or the disposition of the proceeds even if drawn to the individual order of any signing person, or payable to said Bank or others for his account, or tendered in payment of his individual obligation, and whether drawn against an account in the name of this corporation or in the name of any officer or agent of this corporation as such.

Resolved, That any one of the following: Seymour Greenfield, Secretary,[1] are hereby authorized on behalf of this corporation:

1. To borrow money and to obtain credit for this corporation from the Bank on any terms and to make and deliver notes, drafts, acceptances, instruments of guaranty, agreements and any other obligations of this corporation therefor in form satisfactory to the Bank.

2. To pledge or assign and deliver, as security for money borrowed or credit obtained, stocks, bonds, bills receivable, accounts, mortgages, merchandise, bills-of-lading, warehouse receipts, insurance policies, certificates, and any other property held by or belonging to this corporation with full authority to endorse, assign or guarantee the same in the name of this corporation.

3. To discount any bills receivable or any paper held by this corporation with full authority to endorse the same in the name of this corporation.

4. To withdraw from the Bank and give receipt for, or to authorize the Bank to deliver to bearer or to one or more designated persons, all or any documents and securities or other property held by it, whether held as collateral security or for safekeeping or for any other purpose.

5. To authorize and request the Bank to purchase or sell for account of the corporation stocks, bonds and other securities; and

6. To execute and deliver all instruments required by the Bank in connection with any of the foregoing matters and affix thereto the seal of the corporation.

Resolved, That the Secretary or ————————, be, and hereby is, authorized to certify to the Bank the names of the present officers of this corporation and other persons authorized to sign for it and the offices respectively held by them, together with specimens of their signatures, and in case of any change of any holder of any such office or holders of any such offices, the fact of such change and the names of any new officers and the offices respectively held by them, together with specimens of their signatures; and the Bank be, and hereby is, authorized to honor any instrument signed by any new officer or officers in respect of whom it has received any such certificate or certificates with the same force and effect as if said officers were named in the foregoing resolutions in the place of any person or persons with the same title or titles.

Resolved, That the foregoing authorities shall continue in full force and effect until revoked or modified by written notice actually received by the Bank, signed by one purporting to be the Secretary or——and bearing the corporate seal, setting forth a resolution to that effect stated to have been adopted by the Board of Directors of this corporation; and the said Bank is hereby authorized and directed to rely upon the last such notice so authenticated as to the foregoing authorities, or as to the persons who may from time to time be officers of this corporation, or as to specimen signatures of persons authorized to sign or act hereunder on behalf of this corporation, or as to specimen signatures of persons authorized to sign or act hereunder on behalf of this corporation; and the Bank shall be held harmless in such reliance."

I further certify that there is no provision in the Charter or By-Laws of the said corporation limiting the power of the Board of Directors to pass the foregoing

---

[1] NOTE.—Should more than one signature be required, indicate what officers (by title) are authorized to sign in conjunction with one another; should countersignature be required indicate officers authorized to sign and/or countersigned.

resolutions, and that the same are in conformity with the provisions of said Charter and By-Laws.

I further certify that the present officers of said corporation and the offices respectively held by them are as follows:

Jack Ostrer, President.

Seymour Greenfield, Secretary.

In Witness Whereof, I have hereunto set my hand as Secretary of said corporation and, affixed the corporate seal this 4th day of January, 1971.

SEYMOUR GREENFIELD,
As Secretary of the said Corporation.

Other Officer:

JACK OSTRER, *President.*

NOTE.—In case the Secretary or other recording officer is authorized to sign checks, notes, etc., by the above resolutions this certificate must also be signed by a second officer of the corporation.

030061857

CORPORATION MODERN AGENCY, INC. TELEPHONE NO. HU9-6350

Kings Lafayette Bank

PAPERS ON FILE C/R

SIGNING INSTRUCTIONS the following to sign alone

PRESIDEN

VICE-PRESIDEN

Seymour Greenfield Seymour Greenfield SECRETAR

ASST. SEC

TREASURE

c/o Seymour Greenfield, 384 Fifth Avenue, NYC 10018

1/6/71 Miss Tum Suden $6800.00

INTRODUCED BY DATE

F 3 (REV 5-70) Check in 2/2/71

APPENDIX XXII

PARTNERSHIP

INDIVIDUAL OR FIRM Seymour Greenfield 030062136

SIGNING INSTRUCTIONS Personal funds ERS ON FILE None

In receiving items for collection or credit it is understood that the liability of the Bank is limited to the observance of reasonable care in selecting its immediate correspondents for the presentation and collection of items and that the endorsement of this Bank shall not extend such liability; that this Bank is authorized to send such items, for payment in cash or bank draft, direct to the Bank on which they are drawn or to another agent or correspondent with like authority as to receiving payments or forwarding such items; this Bank may accept the draft or credit of such bank, agent or correspondent as conditional payment in lieu of cash; that this Bank shall not be responsible for loss of any kind due to the acts or negligence of any such correspondents in the selection of sub-agents for presentation or otherwise or for loss in transit or for any failure to present demand or collect any item. All checks and other items deposited with the Bank are credited conditionally only, and may be charged back if subsequently returned for irregularity, insufficient funds or other cause, (whether or not the items themselves can be returned), including items drawn upon this Bank which are received for verification.

You are directed to forward to me by ordinary mail, express or by messenger, the monthly statements of my account, together with canceled vouchers at the address as may be shown on your books from time to time.

Seymour Greenfield

ADDRESS 32-16 Henry Ave Far Rockaway, N.Y.

BUSINESS Viscount Agency Inc 384-5th Ave N.Y.N.Y. 10018 PHONE NO. 594-4545

INTRODUCED BY Miss Tum Suden

DATE OPENED 1/27/71 $2,000. DATE CLOSED 2-22-71

F 3A (REV 5-70)

Kings Lafayette Bank

APPENDIX XXIII

EXECUTIVE LIFE INSURANCE COMPANY of NEW YORK

6946

1-108
210

PAY TO THE ORDER OF G. R. Snyder Agency

DEPOSITED

PAYABLE ONLY AS ORIGINALLY DRAWN AND WHEN PROPERLY ENDORSED

JAN 26 1971

MARINE MIDLAND BANK-NEW YORK
WILLIAM STREET OFFICE
110 WILLIAM STREET
NEW YORK, N.Y. 10038

AUTHORIZED SIGNATURE
DO NOT DESTROY

DATE 1-26-71 AMOUNT 150.00

GENERAL ACCOUNT

Robert L. Snyder

MARINE MIDLAND GRACE
TRUST COMPANY OF NEW YORK
110 WILLIAM ST., NEW YORK, N.Y. 10038

⑆0210⑆0108⑆ 005⑆75540⑈ ⑈0015000000⑈

Check
75.00
60.00
15.00

APPENDIX XXIV

OFFICIAL CHECK

Kings Lafayette Bank
NEW YORK

103-001916

DATE 1/27/71

AMOUNT
$25,000.00

PAY 03-KLB-Seventy-five thousand dollars

TO THE ORDER OF

S. GREENFIELD

KINGS LAFAYETTE BANK

Michael McEnroe
Authorized Signature

⑈0300191 6⑈ ⑆0260⑆037 6⑆ 007 100000⑈ ⑈0002500000⑈

S. Greenfield

FEB -1-71-11 CD 25,000.0

Ok for Cash

Wm-G

03 3463

OFFICIAL CHECK

Kings Lafayette Bank
NEW YORK

1-371
260

103-001917

DATE 1/27/71

AMOUNT
$25,000.00

PAY [illegible]

TO THE ORDER OF

D. GELMAN

KINGS LAFAYETTE BANK

Michael McEnroe
Authorized Signature

⑈103001917⑈ ⑆0260⑈0371⑆ 007100000⑈ ⑈0002500000⑈

For Deposit Only
UNDERWRITERS
TRUST CO.
NEW YORK N.Y

1-724

⑆028 71-023 5217⑆

John Gelman & Co.

OFFICIAL CHECK

Kings Lafayette Bank
NEW YORK

1-371
260

103-001918

DATE 1/27/71

AMOUNT
$25,000.00

PAY 03 K.L.B. 25,000 and 00 CTS

TO THE ORDER OF

H. BROWN

KINGS LAFAYETTE BANK

Michael McEnroe
Authorized Signature

"103001918" :0260=0371: 007100000" "000250000"

Allen Brown
111-7471-3

APPENDIX XXV

INTERVIEW SHEET — NEW CHECKING ACCOUNT

[XX] REGULAR [ ] SPECIAL

DATE OPENED January 6, 1971
Closed 2/22/71

ACCOUNT DATA

OFFICE NAME: 03	ACCOUNT NUMBER: 0 3 0 0 6 1 8 5 7	ACCOUNT OPENED BY: XSXXXXXSXXXXX S. Fischetti	
TITLE OF ACCOUNT: Modern Agency, Inc.		SHORT NAME: MODAGENCY	
BUSINESS ADDRESS: c/o Seymour Greenfield	← [XX] MAIL STATEMENT TO [ ] →	HOME ADDRESS:	
384 Fifth Avenue			
New York, NY			
PHONE	ZIP CODE: 10018	PHONE	ZIP CODE
DESCRIPTION OF ORIGINAL DEPOSIT: check		TOTAL : 6800.00	
TYPE OF BUSINESS		INTRODUCED BY INDIVIDUAL OR FIRM: A. TumSuden	

PRINCIPALS

NAME	TITLE	NAME	TITLE	NAME	TITLE
NAME	TITLE	NAME	TITLE	NAME	TITLE

SIGNING INSTRUCTIONS

PAPERS FILED

	REC'D	REQ'D		REC'D	REQ'D
SIGNATURE CARDS	[ ]	[XX]	JOINT ACCOUNT AGREEMENT	[ ]	[ ]
CORPORATE RESOLUTION	[ ]	[XX]	POWER OF ATTORNEY	[ ]	[ ]
BUSINESS CERTIFICATE	[ ]	[ ]		[ ]	[ ]

SERVICE

	USED	POT.		USED	POT.		USED	POT.
COMMERCIAL LOAN	[ ]	[ ]	LETTERS OF CREDIT	[ ]	[ ]	CHRISTMAS CLUB	[ ]	[ ]
INSTALLMENT LOAN	[ ]	[ ]	PERSONAL CREDIT	[ ]	[ ]		[ ]	[ ]
TRUST SERVICE	[ ]	[ ]	SAVINGS ACCOUNT	[ ]	[ ]		[ ]	[ ]
COLL. - FGN/DOM.	[ ]	[ ]	SAFE DEPOSIT BOX	[ ]	[ ]		[ ]	[ ]

AFFILIATION

AFFILIATED ACCOUNT NUMBER:

SUPPLIES

CHECKBOOK STYLE	COLOR	START. NUMBER
300 VS	Pink	101

SPECIAL INSTRUCTIONS: name only OCTA

End Stamp

DIST.

NEW ACCOUNT SECTION [ ] BUS. DEV. DEPT. [ ] CREDIT DEPT. [ ] DATA PROC. DEPT. [ ]

CODES

STATUS	ANALYSIS	DESCRIPTION	WAIVE SERVICE CHARGE	INDUSTRIAL CODE
[0] 0 — NORMAL 1 — BLOCKED 2 — DO NOT CLOSE ON ZERO BAL.	[0] 0 — NORMAL 2 — ALERTED	[5] 1 — U. S. GOVT. 2 — PUBLIC FUNDS - CITY 3 — PUBLIC FUNDS - STATE 4 — PUBLIC FUNDS - OTHER 5 — IND. PART. CORP. 6 — DOMESTIC BANKS 7 — SAVINGS BANKS 8 — SVGS. & LOAN ASSOC.	[ ] YES [ ] NO	FOLIO

REFERENCES

BANK	REMARKS
OTHER	

SERVICE CHARGE WAIVED

AUTHORIZED

REFERENCES VERIFIED BY:	ACCOUNT ASSIGNED TO: C. Washington	OFFICER INIT. CTW	COURTESY LETTER SENT: [ ] NO [ ] YES DATE
SIGNATURE IDENTIFIED BY:	ACCOUNT ACCEPTED BY:		DATE ACCEPTED:

INTERVIEW SHEET — NEW CH. IN ACCOUNT

[X] REGULAR [ ] SPECIAL

DATE OPENED 1/27/71

Closed 2/22/71

ACCOUNT DATA

OFFICE NAME: 03	ACCOUNT NUMBER [redacted]		ACCOUNT OPENED BY: Miss Tum Suden
TITLE OF ACCOUNT: SEYMOUR GREENFIELD		SHORT NAME	S Greenfield
BUSINESS ADDRESS: c/o Viscount Agency, Inc.	[X] MAIL STATEMENT TO	HOME ADDRESS: 32-16 Healy Ave.	
384 Fifth Avenue		Far Rockaway, New York	
New York, New York			
PHONE 594-4545	ZIP CODE 10018	PHONE	ZIP CODE
DESCRIPTION OF ORIGINAL DEPOSIT 030061857-KLB - Modern Agency, Inc.		TOTAL $ 2,000.	
TYPE OF BUSINESS		INTRODUCED BY INDIVIDUAL OR FIRM: Miss A. Tum Suden	

PRINCIPALS

NAME	TITLE	NAME	TITLE	NAME	TITLE
NAME	TITLE	NAME	TITLE	NAME	TITLE

SIGNING INSTRUCTIONS: Personal funds

PAPERS FILED

	REQ'D		REQ'D		REQ'D		REQ'D
SIGNATURE CARDS	[X]		[ ]	JOINT ACCOUNT AGREEMENT	[ ]		[ ]
CORPORATE RESOLUTION	[ ]		[ ]	POWER OF ATTORNEY	[ ]		[ ]
BUSINESS CERTIFICATE	[ ]		[ ]		[ ]		[ ]

SERVICE

	USED	POT.		USED	POT.		USED	POT.
COMMERCIAL LOAN	[ ]	[ ]	LETTERS OF CREDIT	[ ]	[ ]	CHRISTMAS CLUB	[ ]	[ ]
INSTALLMENT LOAN	[ ]	[ ]	PERSONAL CREDIT	[ ]	[ ]		[ ]	[ ]
TRUST SERVICE	[ ]	[ ]	SAVINGS ACCOUNT	[ ]	[ ]		[ ]	[ ]
COLL. - FGN/DOM.	[ ]	[ ]	SAFE DEPOSIT BOX	[ ]	[ ]		[ ]	[ ]

CROSS-REFERENCE

Modern Agency Inc. - 030061857

AFFILIATED ACCOUNT NUMBER

SUPERVISION

CHECKBOOK STYLE: Small-3 on page | COLOR: Blue | START. NUMBER: 101

SPECIAL INSTRUCTIONS: Name only

NEW ACCOUNT SECTION [X] BUS. DEV. DEPT [ ] CREDIT DEPT. [ ] DATA PROC. DEPT. [ ]

CODE

STATUS [0] 0 — NORMAL, 1 — BLOCKED, 2 — DO NOT CLOSE ON ZERO BAL.

ANALYSIS [0] 0 — NORMAL, 2 — ALERTED

DESCRIPTION [5] 1 — U. S. GOVT., 2 — PUBLIC FUNDS - CITY, 3 — PUBLIC FUNDS - STATE, 4 — PUBLIC FUNDS - OTHER, 5 — IND. PART. CORP., 6 — DOMESTIC BANKS, 7 — SAVINGS BANKS, 8 — SVGS. & LOAN ASSOC.

WAIVE SERVICE CHARGE [X] YES [ ] NO

INDUSTRIAL CODE

FOLIO

REMARKS

BANK

OTHER

Waive S/C

OPEN-CLOSE

REFERENCES VERIFIED BY:

SIGNATURE IDENTIFIED BY:

ACCOUNT ASSIGNED TO:

OFFICER INIT.

ACCOUNT ACCEPTED BY:

COURTESY LETTER SENT: [ ] NO [X] YES DATE

DATE ACCEPTED: 1/27/71

[ ] Duo Tone [ ] Rescreen

APPENDIX XXVI

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

23345

Jan. 14 19 72

1-750/260 H

PAY ACTUESS 50,000.00 DOLLARS $ 50,000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

6

BANK OF COMMERCE
... East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 40⑆05536 1⑈ ⑈0005000000⑈

Dina Gelman Agency
Dina Gelman
Signature ok
Wm J. C. Brown

THE TRANS WORLD LIFE
INSURANCE COMPANY
511 FIFTH AVENUE
NEW YORK, NEW YORK 10017

23709

January 27, 1972

1-750/260 H

PAY ACTUESS 25,000.00 DOLLARS $25.000.00

TO THE ORDER OF Dina Gelman Agency

GENERAL ACCOUNT

6

BANK OF COMMERCE
... East 42nd Street, New York, N.Y.

⑆0260⑆0750⑆ 40⑆05536 1⑈ ⑈0002500000⑈

Dina Gelman Agency
J. T. Wm

APPENDIX XXVII

THE TRANS WORLD
LIFE INSURANCE CO. OF NEW YORK,
April 24, 1972.

Re: Local 295

Mrs. DINA GELMAN,
President, Dina Gelman Agency,
New York, N.Y.

DEAR MRS. GELMAN: It has come to my attention that the December 1st, 1972 increment of severance increases, as relates to the aforementioned Local, has not as yet been ratified for its implementation on that date.

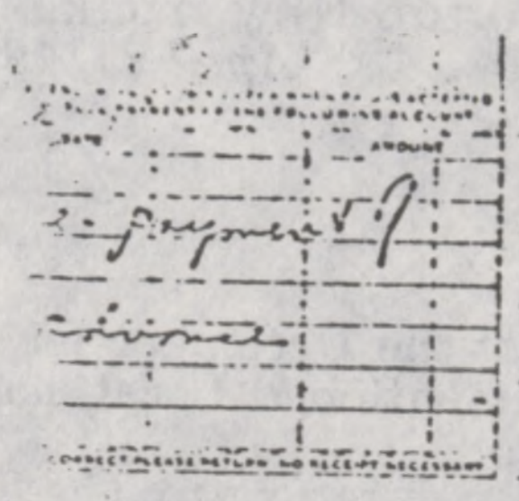
It therefore becomes necessary for me to request that you return to The Trans World Life Insurance Company, the advances made in this regard which amount to $75,000.00.

Your immediate cooperation will be greatly appreciated.

Very truly yours,

JOSEPH J. WARREN, C.L.U.,
President.

APPENDIX XXVIII



DINA GELMAN AGENCY

125

1-750
260

April 26 19 7-

PAY TO THE ORDER OF Trans World Life Ins. Co. $ 5000 00

Fifty Thousand 00/100 DOLLARS

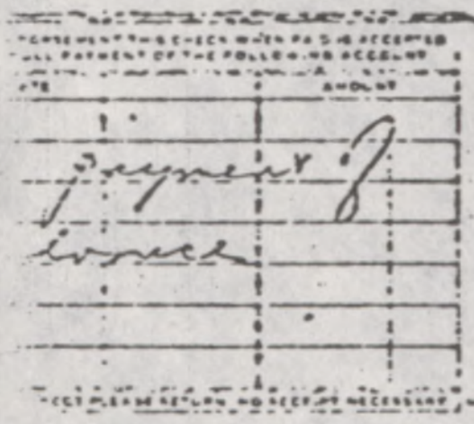
24

BANK OF COMMERCE
56 East 42nd Street, New York, N.Y.

Dina Gelman

⑆0260⑈0750⑆ 40⑈07954 6⑈

Pay to the order of the
Viscount Agency Inc.
THE TRANS WORLD LIFE INSURANCE COMPANY OF NEW YORK
By Judith Tarsh



DINA GELMAN AGENCY

124

1-750
260

April 26 19 7-

PAY TO THE ORDER OF Trans World Life Ins. Co. $ 25000 00/100

Twenty Five Thousand 00/100 DOLLARS.

24

BANK OF COMMERCE
56 East 42nd Street, New York, N.Y.

Dina Gelman

⑆0260⑈0750⑆ 40⑈07954 6⑈

Pay to the order of the
Viscount Agency Inc.
THE TRANS WORLD LIFE INSURANCE COMPANY OF NEW YORK
By Judith Tarsh

APPENDIX XXIX

MARCH 30, 1973.

Mr. HARRY DAVIDOFF,
Jamaica, N.Y.

DEAR MR. DAVIDOFF: This Subcommittee is completing an important phase of its inquiry into the operations and benefits of severance trust funds. One aspect of the investigation involves the I.B.T. Local 295, Severance Trust Fund, Jamaica, New York.

Our investigation discloses that you participated in the operations of the above-mentioned plan and these activities will be covered in a Report of the U.S. Senate Permanent Subcommittee on Investigations of the Committee on Government Operations, which will be made public. Accordingly, we wish to give you the opportunity to respond to questions raised during the course of this investigation relating to your activities which will be covered in the Report. The meeting may be held at either the Subcommittee's New York Office, Room 2944, Federal Building, 26 Federal Plaza, New York, N.Y. 10007, telephone: 264–3012, or in our Washington Office, Room 101, Old Senate Office Building, Washington, D.C., 20510, telephone: 202/225–3721.

If no reply is received within ten days from the receipt of this communication, I will assume that you have declined this invitation. Please respond to Mr. A. F. Calabrese, who is heading this investigation, or members of his investigating team if he is not available, at the Washington number listed above.

Sincerely yours,

HOWARD J. FELDMAN, *Chief Counsel.*

MARCH 30, 1973.

Mr. LOUIS C. OSTRER,
Kings Point, Long Island, N.Y.

DEAR MR. OSTRER: This Subcommittee is completing an important phase of its inquiry into the operations and benefits of severance trust funds. One aspect of the investigation involves the I.B.T. Local 295, Severance Trust Fund, Jamaica, New York.

Our investigation discloses that you participated in the operations of the above-mentioned plan and these activities will be covered in a Report of the U.S. Senate Permanent Subcommittee on Investigations of the Committee on Government Operations, which will be made public. Accordingly, we wish to give you the opportunity to respond to questions raised during the course of this investigation relating to your activities which will be covered in the Report. The meeting may be held at either the Subcommittee's New York Office, Room 2944, Federal Building, 26 Federal Plaza, New York, N.Y. 10007, telephone: 264–3012, or in our Washington office, Room 101, Old Senate Office Building, Washington, D.C. 20510, telephone: 202/225–3721.

If no reply is received within ten days from the receipt of this communication, I will assume that you have declined this invitation. Please respond to Mr. A. F. Calabrese, who is heading this investigation, or members of his investigating team if he is not available, at the Washington number listed above.

Sincerely yours,

HOWARD J. FELDMAN, *Chief Counsel.*

APPENDIX XXX

JANUARY 16, 1973.

Re Local 295 Severance Trust Fund.

FRINGE PROGRAMS, INC.,
New York, N.Y.

DEAR SIRS: At a meeting of the Trustees of the Local 295 Severance Trust Fund held on January 16, 1973, by resolution of the Trustees, it was determined that the administration of the Fund would be handled by the Fund office.

Accordingly, your services will no longer be required as of January 31, 1973, and our check in the sum of $10,718.92 represents final payment for your services.

Representatives of this office will arrange to pick up all records, documents and life insurance policies in your possession.

Thank you for your courtesy, cooperation, and past services to this office.

Very truly yours,

MICHAEL HUNT,
Secretary, Local 295 Severance Trust Fund.

APPENDIX XXXI

FEBRUARY 21, 1973.

Memorandum to: John P. Constandy.
From: Maurice Frame.
Subject: Local 295 Severance Trust Fund—Selection of Insurance Carriers by Trustees of Fund.

Mr. Frank Della Pelle, Chairman of the Board of Trustees of the Fund (and employer Trustee) advised the writer today by telephone that the Prudential Life Insurance Company has been selected as the insurance carrier for the membership of Local 295 on a term-insurance basis. The Trustees accepted the recommendation of Mr. A. Maxwell Kunis of the firm of A. M. Kunis, the new actuary of the Fund, of the Prudential Company over the other insurance firms, such as, Travelers-Life, Aetna Life, Mutual Benefit Life (of Newark, New Jersey), Connecticut General, and others. This was decided by the Trustees at the meeting of February 20, Mr. Della Pelle advised.

Mr. Della Pelle said that the Kunis company was authorized by the Fund Trustees to make all arrangements with the Prudential company to cover the Local 295 membership with term insurance effective as of March 1, 1973. Mr. Della Pelle estimated that the Fund's insurance premium cost will now be about $250,000 a year instead of the $1,000,000 cost previously.

APPENDIX XXXII

A. M. KUNIS & CO., INC.

AMENDMENT TO LOCAL 295 SEVERANCE TRUST FUND

(Effective February 1, 1973)

Sections 1.01, 1.08, 1.09, and 1.10 are hereby deleted.

Sections 1.02 through 1.07 are renumbered to read Sections 1.01 to 1.06 respectively. Sections 1.11 through 1.23 are hereby renumbered to read Sections 1.07 to 1.19 respectively.

Renumbered Section 1.13 is hereby changed to read as follows:

1.13 "Share Account" shall mean the amount the Employer has contributed for a Member plus increment or decrement credited to such amount as of the last evaluation date, if any, less such Member's allocated share of charges against the Trust Fund.

Reference to Section 1.18 in the second line of Section 3.05 is hereby changed to read Section 1.14.

The title of the column appearing in Section 3.06(b) which reads "Share Account in the amount of Employer contributions credited to the Member's account" is hereby deleted and the heading is changed to read "Percentage of Amount Credited to the Member's Account".

Sections 3.07, 3.08, 3.09, 3.10, 3.11 and 3.19 are hereby deleted.

Sections 3.12 through 3.18 are hereby renumbered to read Sections 3.07 to 3.13 respectively. Sections 3.20 and 3.21 are renumbered to read Sections 3.14 and 3.15 respectively.

Renumbered Section 3.07 is hereby changed to read as follows:

3.07 In the event of the death of a Member prior to termination of employment, there shall be payable as a death benefit to his beneficiary, if designated, or to his estate if no beneficiary has been designated, the amount credited to such decreased Member's account as of the date of his death, modified in accordance with the provisions of Section 3.06 a) and b).

Renumbered Section 3.12 is hereby changed to read as follows:

3.12 Payment of the death benefit shall be made in full to the Beneficiary after due proof of death has been received by the Trustees.

Reference to Section 3.21 in renumbered Section 3.14 is hereby changed to read Section 3.15.

Section 4.04 is hereby deleted, and the following is substituted therefore:

4.04 Subject to the discretion of the Trustees in determining whether any of the following items may be excluded, the Member's account in the Severance Plan as of the last evaluation date shall consist of an aggregate of no less than the following:

(a) The total Employer contributions to the Trust Fund on his behalf, less;

(b) The allocated share of charges against the Trust Fund on account of necessary costs, fees and other expenses, if any, incurred in connection with the establishment and administration of the Severance Plan, less;

(c) The increment or decrement credited to his account from his entrance into the Severance Plan up to the last evaluation date. Increment or decrement shall be annually credited to each account in the same proportion as the money in each individual account is to the total fund of all accounts.

Section 4.05 is hereby deleted, and the following is substituted therefore:

4.05 Notwithstanding the foregoing, a Member or his Beneficiary who retires or terminates for any reason shall receive as a minimum the percentage of the total amount of Employer contributions to the Trust Fund on his behalf in accordance with the following schedule:

	Percentage
Terminated Member was Member of Plan in December 1, 1970.	One Hundred (100%) percent.
Terminated Member Entered Plan after December 1, 1970 and Period of Membership in the Plan at Termination was:	
At least one (1) year but less than (2) years.	Twenty (20%) percent.
At least two (2) years but less than three (3) years.	Forty (40%) percent.
At least three (3) years but less than four (4) years.	Sixty (60%) percent.
At least four (4) years but less than five (5) years.	Eighty (80%) percent.
At least five (5) full years	One Hundred (100%) percent.

The first sentence of Section 6.02 is hereby deleted and the following is substituted therefore:

6.02 In the event that the Severance Plan shall, for any reason, terminate or be terminated or upon complete discontinuance of contributions under the Plan, each Member shall have the right to all monies standing to his credit at the time of such termination or discontinuance, as the case may be, and each Member shall receive an amount equal to his share account as calculated from evaluation made as of the termination or discontinuance date.

Sections 7.11 and 7.12 are hereby deleted.

Employer Trustees:

FRANK DELLA PELLE (and 4 others).

Union Trustees:

MICHAEL HUNT (and 4 others).

APPENDIX XXXIII

[From August 1974 Reader's Digest]

THE MAFIA TIGHTENS ITS GRIP ON THE TEAMSTERS

It has been 15 years since the Senate Committee on Labor Rackets, and the press, exposed the Teamster Union's link to the underworld under James R. Hoffa. Today, Hoffa's successor as Teamster president, Frank E. Fitzsimmons, offers a "new image" for his powerful union.

What is the reality behind the image? Here is the first of a series of articles in which Roving Editor Lester Velie, aided by investigative assistant Jennifer Bolch, shows that our biggest union is deeper in the grip of the underworld than ever.

(Lester Velie [1])

On Sunday, June 14, 1972, Lloyd Hicks announced that he would run for president of Teamster Local 390, Miami. On Tuesday, gunmen killed him.

"They can't kill all of us," Travis Dumas, Hicks' best friend and fellow business agent, announced. "I'm running in Lloyd's place."

---

[1] Lester Velie has written about labor affairs for many years. He is the author of the widely read Labor USA. and his earlier series of Digest articles about the Teamsters (beginning with "The Riddle in the Middle of America's Most Powerful Union," The Reader's Digest, December 1955) first exposed Jimmy Hoffa's connections with the underworld.

Dumas hired a guard and set out to win control of the local's 2700 members, many of whom have been terrorized. Dumas won, but word soon came to him through the union grapevine that there was a contract out on his life. So, for the last 20 months, Dumas has lived the life of the hunted. He has a shotgun at hand at all times and has told his wife not to let their three children out of sight.

How did he get into this fix? By being a man who stands in the way of organized crime's efforts to extend its hold on the Teamsters. Among other things, Dumas has refused bribes to corral union members into shady insurance schemes and, more dramatically, has been a roadblock in the path of a New York City gangster invasion of the Miami International Airport.

Through control of Teamster Local 295, the New York Mafia already oversees the handling of freight at John F. Kennedy International Airport. This has enabled it to tap two huge rivers of tribute. One, according to Congressional testimony, is through a gangster-dominated trucking association which truckers must join in order to do business at the airport—and which employs mobster "labor consultants" to assure labor peace. The other consists of organized pillage of air cargoes which, according to New York Waterfront Commission estimates, has reached the awesome total of $10 million annually. For the last several months, Dumas has been fighting Mafia raids from New York aimed at capturing members of his union—and, with them, control of all trucks bringing air freight in and out of the Miami airport.

TWO BOSSES

Dumas' struggle for survival at the bottom of the Teamster pile reflects a larger struggle at the top—between former president James R. Hoffa and his successor, Frank E. Fitzsimmons. Many Teamster locals are honestly run by dedicated union leaders. But because of the struggle above, the underworld's parastic hold on the Teamsters is as pervasive today as it was when Senate investigators and the press exposed it 15 years ago.

To understand why, it is necessary to recognize a basic fact of political life in the Teamsters. Its president must satisfy two constituencies: union members and the organized-crime bosses of our big cities. This obligation was created by Hoffa when he enlisted underworld support in his drive for delegates to the 1956 Teamster convention.

Elected president, Hoffa found himself with two masters. He worked 18-hour days for his union members, settling grievances, building Teamster membership over the two million mark, and negotiating ever-higher pay increases and fringe benefits. He did well for his underworld constituency, too, paying off in other people's money and misery. He permitted gangsters to turn Kennedy airport into a pillaging preserve. In Chicago, Hoffa sluiced Teamster welfare-fund insurance patronage to a criminal family linked to the old Capone mob. All over the country, Hoffa paid debts to organized-crime figures with Teamster pension-fund loans that often went unpaid.

Today, the underworld holds the power balance that may determine who will be elected Teamster president in 1976: Hoffa (providing he wins his legal battle against restraints that bar him from union activity) or the incumbent Fitzsimmons. "Without support from 'the boys,' " a Teamster vice president told me, "Fitz couldn't remain president for one minute." So Fitzsimmons, as Hoffa before him, must also please "the boys" as well as the members.

BEST GIRL

When Hoffa went to jail in 1967 for fraudulent use of the Teamsters' biggest pension fund, and for jury tampering, he assigned Fitzsimmons to act on his behalf. But Fitzsimmons found himself in the classic posture of the man to whom a best friend has entrusted a best girl. He fell in love with the girl—the Teamster presidency—and moved aggressively to keep her.

For Fitzsimmons, a phlegmatic, pumpkin-faced 66-year-old with a heavy belly, the girl had many attractions. First, there was the handsome dowry, a $125,000 yearly salary. Then there were three homes to live in—one in California, one in Florida and another in Washington—and a $3.5 million jet plane that would carry him anywhere in the world, all expenses paid. To this, finally, was added the courtship of the President of the United States. Seeking labor support, President Nixon met with Fitzsimmons' executive board in the summer of 1971, rubbed elbows with mob-connected officials, and let it be known that the White House door was always open to Fitzsimmons.

As the time approached for Hoffa to leave prison, Fitzsimmons decided that his own ruddy face—basking in the favor of a President—was better for the Teamster image than Hoffa's prison pallor. But if Hoffa, freed, were to resume union activity, his first move would be a run for the presidency of his old Local 299 in Detroit. With that as a power base, he might well regain control of the entire membership at the 1976 Teamster convention.

BLOCKING ACTION

At Hoffa's elegant condominium near Miami, he recently showed reporter Jennifer Bolch the pardon form he signed in prison. It contained stipulations such as, "the parolee will not drink to excess"—but *no* stipulation that Hoffa refrain from union activity. Hoffa said he was astounded to learn on emerging from prison that another pardon document, signed by President Nixon, barred him from union activity until March 6, 1980—four years beyond the next Teamster presidential election. Who was responsible? "Fitzsimmons," says Hoffa—with assists from inside the White House.

"Colson [Charles W. Colson, ex-Presidential counsel, who has pleaded guilty to obstruction of justice in the Ellsberg case] was the mastermind," Hoffa added, and part of the payoff was Teamster legal business for Colson's law firm—at a reported $100,000-a-year fee. Hoffa has spelled out his charges in a suit against the Justice Department, aimed at removing his union-activity restrictions.

Meanwhile, Fitzsimmons is using his power and patronage to woo his two constituencies; the union and the big-city hoodlums. As Hoffa spelled it out to us, Fitzsimmons builds support within the union by returning to the regional Teamster barons the power Hoffa had taken from them. Teamster organizing money, some $7 million yearly, is going to Fitzsimmons men only. And he is banishing Hoffa loyalists to areas where they can't influence delegates to the 1976 Teamster convention. Recently, Fitzsimmons abolished the $46,000-a-year union job filled by Hoffa's wife.

As for the underworld: Teamster business patronage has lately had a curious way of turning up in unclean hands. For example, when Fitzsimmons approved a $1.3 million public-relations program last year to burnish the Teamster image, part of this cash flowed to two "image improvers" with criminal records, one of whom had served 20 years on a murder charge. And Fitizsimmons became attentive to underworld get-rich-quick schemes at Teamster expense. Consider the severance-fringe-benefit scheme hatched by a New York underworld figure and pushed by Fitzsimmons' son, Don.

FITZSIMMONS AND SON

The underworld figure was Louis C. Ostrer, who had pleaded guilty in 1969 to swindling a Canadian insurance company of $338,000, and received a five-year suspended sentence. While on probation, Ostrer was convicted on a federal stock-swindling charge in company with the notorious "Johnny Dio" Dioguardi—thus linking him to the New York Mafia; a New York County indictment further linked him to Mafia loan sharks and charged he had discussed the prospective killing of a delinquent borrower.

Ostrer conceived a union-insurance scheme whose rich potential as a ripoff was dramatized by the form it took in one union Ostrer sold it to: New York Teamster Local 295, dominated by labor racketeer Harry Davidoff. Under the Ostrer plan, trucking employers paid $40 a week per employe to buy individual insurance policies for union members and to build a severance-pay fund. Employers had to go along with the scheme or suffer Davidoff reprisals.

As the New York State Insurance Department has charged, the employers' contributions were largely drained away by excessive commissions and administration fees; for example, insurance which cost the severance fund $1,238,274 could have cost but $52,566. Thus the fund was depleted by $1,185,000. Since the money was paid by employers in lieu of wage increases, it was actually coming out of employes' pockets.

Ostrer initially sold his scheme to some dozen Teamster locals in New York City and New Jersey. Then he extended his operation to Detroit, where, in 1972, he hired young Don Fitzsimmons as "consultant and public-relations man." Since Don Fitzsimmons had no insurance experience (he had been selling vending machines for a hoodlum-owned company), I asked Ostrer why.

"I hired him as a conduit," Ostrer said, "in order to meet certain people." One of the "certain people" Ostrer met was the "conduit's" father, Frank Fitzsimmons.

"Frank quickly saw the value of my plan," Ostrer recalled, "and told me I could go out and sell it to Teamster locals on its merits."

Here Don Fitzsimmons picks up the story. "I was looking for something lucrative," he told us. So, with Ostrer's plan in hand, young Fitzsimmons said, he solicited unions in Michigan, California, Nevada, Massachusetts, New Jersey and Illinois. He estimated that some 60 to 70 locals in those states and Florida eventually adopted Ostrer's plan.

Two things, however, crimped Ostrer's operation. In New York, the State Department of Insurance put a five-percent commission ceiling on insurance sold in bulk to employes, and threatened to force trustees to make restitution of drained funds. Elsewhere, local union leaders decided that Ostrer's scheme was too good a thing to share with the originator. Detroit Local 299, for example, booted him out and turned over the fund to the local's lawyer, who subsequently fired young Fitzsimmons.

So Ostrer's scheme goes marching on—in other hands. Meanwhile, it is persistently reported inside the Teamsters that Frank Fitzsimmons will seek approval of a severance-fringe-benefit plan at the next national bargaining session with trucking employers. Severance pay, of course, is a legitimate union bargaining demand, and some unions have been operating severance funds honestly for years, usually under the administration of an insurance company or actuarial consultant firm. But since many Teamster locals administer welfare funds themselves, one can imagine the opportunities for crooked leaders and the mobs if severance funds become general for all Teamster trucking employes.

RIVERS OF CASH

As these short, selected examples of underworld enterprise show, brains within organized crime are forever buzzing with schemes to tap the vast rivers of cash that employers pour out yearly to provide benefits for Teamster members. The biggest river of all is the $200 million that employers of some 430,000 Teamsters channel each year into the Central States, Southeast and Southwest Area Pension Fund. This has created a $1-billion reservoir of lending and investing money—putting it, as a lending institution, among the country's 100 biggest banks.

As a Teamster vice president told me, the big-city mobs' chief interest in the Teamsters lies in loans from the Central States fund—an interest underlined by the recent attempted assassination of the man who dictated loans at the time, the Chicago gang's ambassador to the Teamsters, Allen Dorfman. Inside the Teamsters, the word was that the Eastern mob was angry at not getting its share of the action.

What does all this say about the underworld's "interest in the Teamsters"? How has it fared during the Fitzsimmons reign? Very well, thank you. In fact, Mafia raids on union gold have become more brazen than ever.

APPENDIX XXXIV

NEW YORK STATE INSURANCE DEPARTMENT

In the Matter of

JAMES COSTA, JAMES HALLAHAN, MICHAEL HUNT, JOHN MORAN, TOM SWEENEY, FRANK DELLA PELLE, WILLIAM ERMER, MARTIN HOFFENBERG, FRANK LABELL AND RUBIN STEINER, EACH AS CURRENT OR FORMER TRUSTEES OF LOCAL 295 SEVERANCE TRUST FUND;

FRINGE PROGRAMS, INC., BY ITS OFFICERS, DIRECTORS AND EMPLOYEES:

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK BY ITS OFFICERS, DIRECTORS AND EMPLOYEES;

TRANS WORLD LIFE INSURANCE COMPANY OF NEW YORK BY ITS OFFICERS, DIRECTORS AND EMPLOYEES;

DINA GELMAN, CY REEVES SNYDER, LOUIS C. OSTRER, VISCOUNT AGENCY, INC., SEYMOUR GREENFIELD, PRESIDENT AND SUBLICENSEE, AND SEYMOUR GREENFIELD, INDIVIDUALLY

RESPONDENTS,

in proceedings to remove current Trustees from office; to impose monetary penalties against current or former Trustees, Officers, Agents or Employees of the Fund, and to recover depleted monies from all Respondents; all pursuant to Section 37-L of the Insurance Law.

STIPULATION

Whereas, the attached Citation dated April 18, 1974 was served upon the Respondents in the above entitled proceeding relating to the Local 295 Severance Trust Fund (hereinafter "Fund"), which Citation was issued by the Superintendent of Insurance, and

Whereas, the Respondents signatory hereto (hereinafter "Respondents") have appeared by their respective attorneys and filed Answers denying the material allegations of the said Citation, and,

Whereas, after the commencement of the Hearing in the captioned matter and after discussion between the said Respondents by their attorneys, and the New York State Insurance Department (hereinafter "Department") by various members of its staff, with the purpose of resolving this matter; Now therefore

It is hereby stipulated and agreed, by and between the said Respondents and the Department, subject to the approval of the Hearing Officer and the Superintendent of Insurance (hereinafter "Superintendent"), as follows:

1. That the said Respondents agree that, in view of the charged depletion but without conceding liability and in order to resolve the issues framed by the pleadings and to avoid the necessity of a prolonged Hearing and appeals thereon, they will pay, simultaneously with the execution of this stipulation, Two Hundred Thousand Dollars ($200,000.00), by certified check(s) to the Superintendent for transmittal to the Fund.

The amount to be paid by each of the undersigned Respondents is to be decided amongst and by them.

2. That each of the said Respondents individually agrees to comply with the Insurance Law and all applicable regulations.

3. That the said Respondents agree to the terms of this Stipulation in lieu of proceeding further with the Hearing in this matter and they waive their rights to continuation of such Hearing.

4. That the captioned proceeding is hereby resolved and discontinued with prejudice, with respect to the Respondents signatory hereto only.

5. That the Department reserves its right to continue this proceeding against those Respondents in this matter set forth in the above caption, other than the undersigned, who are not signatories to this Stipulation.

Dated: New York, N.Y., June 23, 1975.

NEW YORK STATE INSURANCE DEPARTMENT,
By SIDNEY B. GLASER, *Associate Counsel.*

Respondents:

JAMES COSTA.
MICHAEL HUNT.
TOM SWEENEY.
WILLIAM ERMER.
FRANK LA BELL.
JAMES HALLAHAN.
JOHN MORAN.
FRANK DELLA PELLE.
MARTIN HOFFENBERG.
RUBIN STEINER.

Current or former Trustees of the Local 295 Severance Trust Fund:

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK,
By JOSEPH J. WARREN, *President.*
TRANS WORLD LIFE INSURANCE COMPANY OF NEW YORK,
By STANLEY L. CARVER, *President.*

Witnessed:

FRIEDLANDER, GAINES, COHEN, ROSENTHAL & ROSENBERG,
By SIDNEY GAINES, Esq.
Attorneys for Respondents James Costa, James Hallahan, Michael Hunt, John Moran, Tom Sweeney, Frank Della Pelle and Frank La Bell.

SPENGLER, CARLSON, GUBER AND CHURCHILL,
By ROBERT S. CARLSON, Esq.
Attorneys for Respondent William Ermer.

STROOCK, AND STROOCK AND LAVAN,
By JOSEPH L. FORSTADT, Esq.
Attorneys for Respondent Martin Hoffenberg.

SPITZER AND FELDMAN,
By RONALD J. OFFENKRANTZ, Esq.
Attorneys for Respondent Rubin Steiner.

CASEY, LANE AND MITTENDORF,
By EDWARD C. CERNEY III, Esq.
Attorneys for Respondent Executive Life Insurance Co. of New York.

PETER LANDAU, Esq. *and* HAVENS,
WANDLESS, STITT AND TIGHE,
By PAUL M. BROWN, Esq.
Attorneys for Respondent Trans World Life Insurance Co. of New York.

So ORDERED:

Dated: New York, N.Y., June 23, 1975.

WILLIAM C. GOULD,
Hearing Officer.

The foregoing stipulation is hereby approved.

Dated: New York, N.Y., June 23, 1975.

JOHN P. GEMMA,
Acting Superintendent of Insurance.

NEW YORK STATE INSURANCE DEPARTMENT

In the Matter of

JAMES COSTA, JAMES HALLAHAN, MICHAEL HUNT, JOHN MORAN, TOM SWEENEY, FRANK DELLA PELLE, WILLIAM ERMER, MARTIN HOFFENBERG, FRANK LA BELL AND RUBIN STEINER, EACH AS CURRENT OR FORMER TRUSTEE OF THE LOCAL 295 SEVERANCE TRUST FUND;

FRINGE PROGRAMS, INC., BY ITS OFFICERS, DIRECTORS AND EMPLOYEES;

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK BY ITS OFFICERS, DIRECTORS AND EMPLOYEES;

TRANS WORLD LIFE INSURANCE COMPANY OF NEW YORK BY ITS OFFICERS, DIRECTORS AND EMPLOYEES;

DINA GELMAN; CY REEVES SNYDER; LOUIS C. OSTRER; VISCOUNT AGENCY, INC., SEYMOUR GREENFIELD, PRESIDENT AND SUBLICENSEE, AND SEYMOUR GREENFIELD, INDIVIDUALLY

RESPONDENTS,

in proceedings to remove current Trustees from office; to impose monetary penalties against current or former Trustees, Officers, Agents or Employees of the Fund; and to recover depleted monies from all Respondents; all pursuant to Section 37–L of the Insurance Law.

CITATION

To the above-named respondents:

Please take notice that you and each of you are hereby cited to appear at a hearing to be held at this office, 123 William Street, New York, New York (18th floor) on Tuesday, the 21st day of May, 1974 at 10 o'clock in the forenoon to show cause why all current Trustee-Respondents herein named of the Local 295 Severance Trust Fund, should not be removed as Trustees, and why all Respondents should not be charged with depletion of Fund assets, and why monetary penalties not to exceed $2,500.00 should not be imposed upon each of the current or former Trustees, Officers, Agents or Employees-Respondents by reason of the following charge and specifications:

CHARGE I

All of the herein named respondents, each in his capacity as current or former trustee of the Local 295 Severance Trust Fund; and as current or former officers, directors and employees of Fringe Programs, Inc., and the Executive Life Insurance Co. of New York, and the Trans World Life Insurance Co. of New York; and as licensed insurance agents or brokers; and as individuals, have wilfully and/or wrongfully and/or negligently failed to comply with the requirements of and have violated Section 37–L of the insurance law resulting in the depletion of the assets of the said fund.

Specification A

1. That at all times hereinafter mentioned,

Respondents James Costa, James Hallahan, Michael Hunt, John Moran, Tom Sweeney, Frank Della Pelle, William Ermer, Martin Hoffenberg, Frank La Bell and Rubin Steiner (hereinafter called "Trustees") were and/or still are Trustees of the Local 295 Severance Trust Fund (hereinafter called "Fund"), an employee welfare fund registered with the Insurance Department pursuant to Section 37 of the Insurance Law.

Respondent Fringe Programs, Inc. (hereinafter called "Fringe Programs") by its Officers, Directors and Employees was the Administrator of the Fund.

Respondent Executive Life Insurance Company of New York (hereinafter called "Executive Life") by its Officers, Directors and Employees was the insurance carrier that issued various individual whole life policies that provided a life insurance and waiver of premium benefit for covered members of the Fund during the period beginning December 1, 1970 and ending January 1973.

Respondent Trans World Life Insurance Company of New York (hereinafter called "Trans World Life") by its Officers, Directors and Employees was the insurance carrier that issued various individual whole life policies that provided a

life insurance and waiver of premium benefit for covered members of the Fund during the period beginning December 1, 1971 and ending December 31, 1972.

Respondent Dina Gelman was the sole stockholder of Fringe Programs and was a licensed insurance agent who was the recipient of commissions from Executive Life and Trans World Life on various individual whole life policies issued that provided benefits under the Fund's program.

Respondent Cy Reeves Snyder was a licensed insurance agent who was the agent of record of the life insurance program underwritten by Executive Life for Fund members.

Respondent Viscount Agency, Inc., by and through its President and Sublicensee Seymour Greenfield, was the agent of record of the life insurance program underwritten by Trans World Life for Fund members.

Respondent Louis C. Ostrer was not a licensee of the Insurance Department and was the individual who actually solicited the insurance programs underwritten by Executive Life and Trans World Life for Fund members and who represented Fringe Programs in the solicitation of their retention as administrator.

2. That the Trustees, upon the recommendation and solicitation of Louis C. Ostrer and Fringe Programs, imprudently authorized and purchased various individual whole life insurance policies to provide a life insurance and waiver of premium benefit for Fund members, which policies were excessively costly to the Fund for the benefits provided, without hiring an accredited actuarial consultant, insurance consultant or employee benefit plan consultant to advise and counsel them in making a proper, reasonable and prudent choice as to what type of policies to purchase and without obtaining competitive comparative bids from several insurance companies to ascertain the best alternative. The premiums paid for the insurance program purchased were as follows:

Time period beginning to ending	Company		Total
	Executive Life	Trans World Life	
Dec. 1, 1970 to June 30, 1971	$299,048	----------	$299,048
July 1, 1971 to June 30, 1972	509,457	$292,821	802,278
July 1, to Dec. 31, 1972	248,487	254,841	503,328
January, 1973	39,940	----------	39,940
Total	1,096,932	547,662	1,644,594
Less: April 1973 refund	----------	—3,460	—3,460
Net total premiums	1,096,932	544,202	1,641,134

3. That Respondent Trustees made the said imprudent decision upon the advice and counsel of Respondent Louis C. Ostrer, who solicited the insurance arrangement and who was and is not licensed as an insurance agent by, nor registered as an insurance consultant with the New York State Insurance Department (hereinafter called "Department"), and they failed and neglected to ascertain, verify, check, investigate or confirm his credentials, background and reputation. Had the Trustees done so, they would have ascertained that, in fact, the said Louis C. Ostrer was unlicensed and had had his license as an insurance agent revoked in December, 1967, by the Department, for untrustworthiness in that he improperly diverted more than $700,000 from the Canada Life Assurance Company, leading to his indictment for grand larceny, first degree to which he pleaded guilty on June 17, 1969.

4. That Respondent Louis C. Ostrer actually solicited the insurance arrangement entered into by the Fund Trustees, though he was not licensed to do so by the Department, in wilful violation of the Insurance Law and that he wrongfully and/or negligently misled the Trustees as to the advisability of purchasing individual whole life insurance policies at an excessive cost.

5. That Respondents Cy Reeves Snyder and/or Dina Gelman aided and abetted Respondnet Louis C. Ostrer, though unlicensed, to act as an insurance agent in connection with the individual whole life insurance program underwritten by Executive Life for Fund members. The said Snyder allowed his name to be used as agent of record in order to permit the said Gelman, who was not a licensed agent of Executive Life prior to December 31, 1970, to be the agent in fact on the insurance program, in wilful violation of the Insurance Law. Respondent Snyder also paid or permitted to be paid, to Respondent Gelman, all commissions paid to him as agent of record by Executive Life, in wilful violation of the Insurance Law.

6. That Respondents Executive Life and Trans World Life sanctioned, approved and sold the said insurance programs consisting of various individual whole life insurance policies, to the Trustees, in willful violation of the Insurance Law in that they wrongfully and negligently issued the said policies without having and/or obtaining the consent in writing, of the persons whose lives were insured on individual policies issued to Fund members.

7. That Respondents Executive Life and Trans World Life wrongfully and negligently failed to conform with the permitted commission rates set forth in the National Association of Insurance Commissioners' Code of Ethical Practices (hereinafter called "N.A.I.C. Code") in paying commissions on the fund's insurance programs that they underwrote.

8. That Respondent Trustees were informed at a conference at the offices of the Department on August 24, 1971, that Louis C. Ostrer had had his license revoked by the Department on December 22, 1967 because of untrustworthiness and that the rates of commission, payable under their insurance arrangements with Executive Life, were unconscionably high, in contravention of the N.A.I.C. Code and detrimental to the interests of the Fund, and they nevertheless continued their association with the said Ostrer and failed and/or neglected to take action to effect a reduction of the commission rates. When the insurance benefit was doubled effective December 1, 1971, Respondent Trustees authorized said Ostrer to place the policies with Respondent Trans World Life under an aggregated 90% first year commission and allowances, thereby once again wrongfully and negligently failing to effect reasonable commission rates in accordance with the N.A.I.C. Code.

9. That Respondents Viscount Agency, Inc., by and through its President and sublicensee Respondent Seymour Greenfield and/or Respondent Dina Gelman aided and abetted Respondent Louis C. Ostrer, while unlicensed, to act as an insurance agent, in connection with the solicitation of the individual whole life insurance program underwritten by Trans World Life for Fund members. The said Viscount Agency allowed its name to be used as agent of record when in fact it had not solicited the said insurance program and the said Ostrer had solicited the said program, all in violation of the Insurance Law.

10. That the aforesaid transactions show a pattern of gross neglect, incompetence, mismanagement and imprudence as fiduciaries on the part of said Respondent Trustees and Respondent Administrator, Fringe Programs and wilful violations of the Insurance Law on the part of all Respondents.

11. That by reason of the aforesaid wilful violations of the Insurance Law and the wrongful and/or negligent acts or omissions of the said Respondents in violation of their fiduciary responsibilities and/or Section 37–L of the Insurance Law, the assets of the said Fund were depleted in the approximate amount of $1,185,-728.00, as set forth in the following schedule. with interest at the legal rate.

	Company		
	Executive Life	Trans World Life	Total
Fund cost of individual whole life insurance program purchased:			
Premiums	$1,096,932	$544,202	$1,641,134
Death claims incurred	258,950	120,500	380,450
Cash surrender values paid	410		410
Cash surrender values accrued	21,000	1,000	22,000
Less total benefits	280,360	122,500	402,860
Amount retained by insurance companies for commissions, expenses and profits	816,572	421,702	1,238,274
Fund cost of the comparable group term life insurance program:			
Premiums [1]			525,460
Death claims incurred			380,450
Dividends			92,464
Less total benefits			472,914
Amounts retained by insurance companies for commissions, expenses and profits [2]			52,546
Depletion of fund caused by purchase of individual whole life insurance program instead of the comparable group term life insurance program:			
Fund cost of individual whole life insurance program purchased			1,238,274
Less fund cost of the comparable group term life insurance program			52,546
Total depletion of fund			1,185,728

[1] A premium rate of $0.47 per month per $1,000 of group term life insurance was used. This rate includes waiver of premium and accidental death and dismemberment benefits. The Prudential Insurance Co., which is the insurance company that underwrote the fund's present group term life insurance program, used this rate.

[2] A 10 percent retention rate was used in this calculation. The actual retention rate quoted by the Prudential Insurance Co. in its preposal for the fund's present group term life insurance policy was 4.8 percent.

Please take further notice that:

(*a*) This citation is issued to you pursuant to the provisions of Section 37–L of the Insurance Law.

(*b*) Notice of this hearing is given to you in accordance with the provisions of Sections 22, 23 and 37–L of the Insurance Law.

(*c*) You may, if you wish, be represented by counsel at the hearing. Should you intend to be so represented, it is required that at least five days before the return date of this citation, a written answer shall be filed with the Office of General Counsel of this Department, which answer shall concisely admit or deny the charge and every paragraph of the specification thereof. Opportunity for explanation or statement in mitigation will be afforded you at the hearing.

(*d*) Should you desire the presence of witnesses at the hearing, subpoenas will be forwarded to you, if you make your request in writing to the Office of General Counsel of this Department.

(*e*) Should you fail to appear at the time and place fixed, the hearing will proceed as scheduled. The action taken, if any, may result in the case of Fund Trustee, Officer, Agent or Employee-Respondents, in their removal from office and/or the imposition of monetary penalties, and in the case of all Respondents, subject them to a depletion action and such other and further action as may be provided for by the Insurance Law.

Yours etc.

BENJAMIN R. SCHENCK
Superintendent of Insurance.
By SIDNEY B. GLASER
Associate Counsel, Welfare Funds.

Dated: April 18 1974.

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

To:

James Costa, 179–30 149th Street, Jamaica, N.Y. 11434.
James Hallahan, 179–30 149th Street, Jamaica, N.Y. 11434.
Michael Hunt, 179–30 149th Street, Jamaica, N.Y. 11434.
John Moran, 179–30 149th Street, Jamaica, N.Y. 11434.
Tom Sweeney, 179–30 149th Street, Jamaica, N.Y. 11434.

Julius November, President, Fringe Program Inc., 377 Fifth Avenue, New York, N.Y. 10016.
Rubin Steiner 138–01 Springfield Blvd., Jamaica, N.Y.
Dina Gelman, care of Fringe Programs, Inc., 377 Fifth Avenue New York, N.Y. 10016.
Cy Reeves Snyder, 1562 Northeast 191st Street, North Miami Beach, Fla.
Louis C. Ostrer, 181 Kings Point Road, Kings Point, N.Y.
Seymour Greenfield, President, Viscount Agency, Inc., 384 Fifth Avenue, New York, N.Y.
Seymour Greenfield, 32–16 Healy Avenue, Far Rockaway, N.Y.
William R. Tenney, President, Executive Life Insurance Co. of New York, 390 Broadway, Jericho, N.Y. 11753.
Stanley L. Carver, President, Trans World Life Insurance Co. of New York, 511 Fifth Avenue, New York N.Y. 10017.
Frank Della Pelle, Building No. 150, Newark Airport Newark, N.J.
William Ermer, 150–15 New York Blvd., Jamaica N.Y.
Martin Hoffenberg, Building No. 89, J.F.K. Airport Jamaica, N.Y.
Frank La Bell, 149–92 New York Blvd., Jamaica, N.Y.
Dina Gelman, 104–60 Queens Blvd., Forest Hills, N.Y. 11375.
Cy Reeves Snyder, care of Sindon, 660 82nd Street, Miami Beach, Fla.
Seymour Greenfield, President, Viscount Agency, Inc., 377 Fifth Avenue, New York, N.Y.

STATE OF NEW YORK INSURANCE DEPARTMENT,
New York, N.Y., January 9, 1973.

[Certified mail: Return receipt requested]

DINA GELMAN,
Forest Hills, N.Y.
CY REEVES SNYDER,
Miami Beach, Fla.

CITATION

SIR: Please take notice that you and each of you are hereby cited to appear at a hearing to be held at the office of the Insurance Department, 123 William Street, New York, New York (18th floor) on the 28th day of February, 1973 at 10 o'clock in the forenoon to show cause why all licenses issued to you should not be suspended or revoked, and why all pending applications for licenses should not be denied by reason of the following charge and specifications.

CHARGE I

You have demonstrated your untrustworthiness and/or incompetence to act as an insurance agent within the contemplation of the insurance law.

Specification A

1. (a) In the period between December 10, 1970 and February 9, 1971 respondent Cy Reeves Snyder was the agent of record in connection with a life insurance program underwritten by Executive Life Insurance Company of New York for members of Local 295 Severance Trust Fund.

(b) In truth and in fact respondent Cy Reeves Snyder had not solicited or placed the insurance program on behalf of Executive Life Insurance Company of New York nor did he know the details of said program.

(c) In the period between December 10, 1970 and February 9, 1971, respondent Cy Reeves Snyder, in violation of Section 110 of the Insurance Law, allowed his name to be used as agent of record in order to allow Dina Gelman, who was not a licensed agent of Executive Life Insurance Company of New York prior to December 31, 1970, to be the agent in fact on the insurance program in question.

(d) In the period between December 10, 1970 and February 9, 1971 respondent Cy Reeves Snyder, in violation of Section 113 of the Insurance Law, paid or permitted to be paid all commissions paid to him as agent of record by Executive Life Insurance Company of New York to Dina Gelman. In said period of time Dina Gelman was either not licensed as an agent of Executive Life Insurance Company of New York or was not the agent of record for the aforesaid insurance program.

Specification B

1. In the period December 1970 to the present respondents Cy Reeves Snyder and/or Dina Gelman, in violation of Section 110 of the Insurance Law, aided and

abetted one Louis Ostrer, who is not a licensee of the Insurance Department, to act as an insurance agent in connection with the aforesaid insurance program. Louis Ostrer was the individual who actually solicited the insurance program with Local 295 Severance Trust Fund.

Specification C

1. (a) In December 1970 respondent Dina Gelman, in violation of Section 110 of the Insurance Law, acted as an insurance agent of Executive Life Insurance Company of New York in connection with the aforesaid insurance program without having authority to do so by virtue of a license issued by the Insurance Department to represent said insurance company.

(b) In the period between January 1971 and February 1971 respondent Dina Gelman acted as the insurance agent in fact in connection with the aforesaid insurance program but, in truth and in fact, she was not the agent of record thereof.

2. (a) On February 9, 1971 respondent Dina Gelman signed a "Development Allowance Time Certification" for Executive Life Insurance Company of New York stating that she had served as a General Agent or Agency Manager of a life insurance company or companies for a period of 5 years. Said Certification indicated that Section 213(8)(f) of the New York Insurance Law and the applicable Regulations of the New York State Insurance Department provide in part that any person contracted by and under the authority of the Insurance Law of the State of New York as a General Agent shall not be paid additional compensation, if he, or any other person who is in fact the General Agent, has in excess of a total of 5 years of service, prior to the date hereof, as General Agent or Agency Manager of any life insurance company or companies.

In the years 1971 and 1972 respondent Dina Gelman contracted for and accepted an agency development allowance from the Trans World Life Insurance Company of New York in connection with the aforesaid Local 295 Severance Trust Fund Insurance Program.

Respondent knew or should have known that she was not entitled to the aforesaid agency development allowance from Trans World Life Insurance Company of New York since she bad previously certified to Executive Life Insurance Company of New York that she had 5 years experience as a general agent or agency manager of a life insurance company or companies.

(b) In the years 1971 and 1972 respondent Dina Gelman contracted for and accepted an agency development allowance from the Trans World Life Insurance Company of New York in connection with the aforesaid Local 295 Severance Trust Fund Insurance Program. Respondent in said years failed to use such moneys for the establishment and development of an agency organization and knew or should have known that acceptance of an agency development allowance constituted a violation of Section 213(8)(f) of the Insurance Law and Regulation No. 50 of the Insurance Department.

Please take further notice that:

1. According to the records of the Insurance Department respondents are presently licensed as follows:

(a) Cy Reeves Snyder is individually licensed as an insurance agent under Section 113 of the Insurance Law; as President and sole sublicensee of Sportsmens Affiliates, Inc., insurance agent; as President and sole sublicensee of B.M.S. Agency, Inc., insurance agent.

(b) Dina Gelman is individualy licensed as an insurance agent under Section 113 of the Insurance Law; as President and sole sublicensee of William David Agency, Inc., insurance agent; as President, Treasurer and sole sublicensee of Sutter Agency, Inc., insurance agent.

2. This citation is issued pursuant to the provisions of Section 117 of the Insurance Law.

3. Notice of this hearing is given to you in accordance with the provisions of Sections 22, 23 and 117 of the Insurance Law.

4. You may, if you wish, be represented by counsel at the hearing. Should you intend to be so represented it is required that at least two days before the return date of this citation, a written answer shall be filed with the Office of General Counsel of this Department which answer shall concisely admit or deny the Charge and every specification and subdivision thereof. Opportunity for explanation or statement in mitigation will be afforded you at the hearing.

5. Should you desire the presence of witnesses at the hearing, subpenas will be forwarded to you if you make your request in writing to the Office of General Counsel of this Department.

6. Should you fail to appear at the time and place fixed, the hearing will proceed as scheduled. The disciplinary action taken, if any, may result in the suspension or revocation of all licenses issued to you and in the denial of all pending applications for licenses.

7. Notice of the institution of this proceeding is also given to Sportsmens Affiliates, Inc.; B.M.S. Agency, Inc.; William David Agency, Inc. and Sutter Agency, Inc., so they may take whatever action is indicated to protect their interests in accordance with Section 117 of the Insurance Law.

Yours,

BENJAMIN R. SCHENCK,
Superintendent of Insurance.
By BERNARD GOLDSTEIN,
Office of General Counsel, Litigation.

APPENDIX XXXV

STATE OF NEW YORK INSURANCE DEPARTMENT,
OFFICE OF PUBLIC AFFAIRS,
New York, N.Y., March 4, 1976.

Superintendent of Insurance Thomas A. Harnett announced today that the Department has recovered $200,000 for the members of the Local 295 Severance Trust Fund. The recovery was made under the terms of a stipulation between ten Trustees of the Fund, two life insurance companies and the Insurance Department.

The Department charged that James Costa, James Hallahan, Michael Hunt, John Moran, Tom Sweeney, Frank Della Pelle, William Ermer, Martin Hoffenberg, Frank La Bell and Rubin Steiner, Trustees; Fringe Programs, Inc., Fund Administrator; Executive Life Insurance Company of New York and Trans World Life Insurance Company of New York; Dina Gelman, Cy Reeves Snyder, Seymour Greenfield and Viscount Agency, Inc., insurance agents; and Louis C. Ostrer, a former insurance agent whose license was revoked by the Department, had caused a depletion of $1,185,728 in the Fund's assets by their wrongful or negligent acts or omissions.

The Trustees were alleged to have imprudently purchased excessively costly individual whole life insurance policies for Fund members, upon the advice of Ostrer, without checking his background.

The companies were alleged to have violated the Insurance Law by issuing individual policies without obtaining the individual member's written consent to having his life insured and by paying commissions grossly in excess of those permitted under the National Association of Insurance Commissioners' Code of Ethical Practices.

Ostrer's license as an insurance agent had been revoked by the Insurance Department in 1967 for diverting more than $700,000 from a life insurance company. He later was indicted for grand larceny, first degree, in the Supreme Court of the State of New York, County of New York, a charge to which he pleaded guilty on June 17, 1969.

Gelman and Snyder were licensed insurance agents whose licenses were revoked by the Department in 1974 for their part in the Local 295 Severance Trust Fund transaction. The revocations have been appealed.

Greenfield and Viscount Agency, Inc., resigned all their insurance agent and broker licenses on December 17, 1973.

The Trustees and the insurers agreed, without conceding liability, to pay $200,000 to the Superintendent for transmittal to the Fund and to comply with the Insurance Law and Departmental Regulations. The proceedings against them were discontinued.

However, proceedings will continue against Ostrer, Gelman, Snyder, Greenfield, Viscount Agency, Inc., and Fringe Programs, Inc., at the Department's New York City offices on March 15th.

The Local 295 Severance Trust Fund is affiliated with Local 295 of the International Brotherhood of Teamsters Union. Both are headquartered at 179–30 149th Avenue, Jamaica, N.Y.

As of the end of the fiscal year on June 30, 1975, the Fund's net assets were $7,785,610. In fiscal 1975, some 128 employers contributed $3,036,652 to the Fund on behalf of 1,543 covered employees working mainly in the air freight industry.

○