The New York Times

SPENDING IT

A Tale of Unraveled Fortune

By Joseph B. Treaster

May 25, 1997

AS Robert Z. Morris was building a fortune in southern Indiana grain and Florida real estate, his mind often flashed back to a scene from his youth. It was the middle of the Depression and his father was desperately trying to borrow money to keep his farm and grain elevator going. Finally, he turned to his life insurance policy. Mutual of Omaha came through with $500, and the family business was saved.

That powerful lesson left the younger Mr. Morris with a deep faith in the value of life insurance. As the years rolled by and his own business empire flourished, he became as addicted to insurance as some investors are to the stock market. In 1934, he started with a $5,000 policy that named his wife as beneficiary. From then on, he snapped up policies ''off and on for all of my life,'' he said, believing he was buying protection for his family and an investment vehicle for passing on his wealth. He ultimately acquired nearly 100 policies that he expected would pay roughly $30 million on his death, squirreling them away in an office vault. To keep track, he had a secretary draw up a list of the policies in longhand on a pale green ledger sheet.

But 12 years ago, Mr. Morris entered into a deal that undermined his confidence in the insurance industry and wiped out a large chunk of his wealth. In the process, he became one of tens of thousands of people who say they were burned by an industry marketing push in the early 1980's to hold onto policyholders' money -- a push that has since resulted in a barrage of lawsuits and hundreds of millions of dollars in fines and compensation payments.

But the unusual combination of his wealth, his passion for insurance policies and his readiness to pay a stream of unexpected bills totaling millions of dollars with barely a peep of protest makes Mr. Morris's story one of the most spectacular financial follies of recent years.

Now 82 years old and fighting Parkinson's disease, Mr. Morris is embroiled in a bitter dispute to get some of his money back.

And the insurance companies that provided the policies -- the Manufacturers Life Insurance Company and the American General Life Insurance Company -- as well as a Michigan agent who handled the transaction, James W. O'Neill, are not budging. They say the deal was fair and square and that Mr. Morris was showered with details.

''This is a not a situation where an insurance agent goes out to Ma and Pa Kettle on the farm on one visit and sells them a bill of goods,'' said Brent R. Weil, an Evansville lawyer who represents Mr. O'Neill. ''This is a transaction that involved at least 10 visits to Mr. Morris over the course of nearly a year and volumes of projections were generated. Mr. Morris is a very financially sophisticated person.''

At the time Mr. Morris made his move, interest rates were soaring, and millions of Americans were either abandoning or borrowing from their low-yielding whole-life insurance policies -- those that accumulate a cash value over time -- and moving the money into higher-yielding money-market funds and certificates of deposit.

To stanch the flow, insurance companies urged customers to convert their old policies, with returns of 4 to 5 percent, into new ones that paid twice as much or more. At the instigation of his agent, Mr. Morris did just that. After reviewing all of Mr. Morris's insurance holdings, Mr. O'Neill reduced the portfolio to about 60 policies. In his most striking move, he converted about 30 of the old policies, with death benefits for the Morris family of $6.4 million and annual premiums of $326,012, into 15 policies with death benefits of $10.1 million.

It was almost like waving a magic wand and doubling your money. Best of all, the projected interest on $2.28 million that was being shifted into the new policies, mainly as loans from the cash value of the old policies, was expected to pay all future premiums. It seemed a rather painless way for a 70-year-old man to make his money grow for his heirs.

That, at least, is how Mr. Morris says the agent explained it to him. In truth, such a happy outcome depended on the very unlikely event that interest rates would stay in double digits indefinitely. If they fell, however, Mr. Morris would have to make up the difference. All of this was explained in the fine print, but savvy as Mr. Morris was in his own business ventures, he says he never read the fine print. He says he didn't think he had to; after all, his absolute trust in insurance companies had been ingrained for more than half a century.

Besides, he said, ''You could put 100 people on the witness stand and ask them if they'd read their insurance policies, every word of them, and you might find one.''

So it came as a bit of a shock when, just a year after he made the switch, he received bills totaling roughly $300,000 from the two insurers. Puzzled, he dialed the toll-free number that each company had listed on its premium notice, he said, and, in each case, spoke with a woman whose name he did not catch. Both representatives, he said, told him the payments were necessary to bring his policies up to a point where no further premiums would be required.

THOSE brief telephone conversations were enough to satisfy Mr. Morris. His belief in the integrity of the insurance industry outweighed any doubts. He wrote both checks.

He did not hear anything from the companies, he said, for nearly three years. Then in late 1989, Manufacturers Life told him he owed $142,720. He paid. The next year, it sent a bill for $243,961. He paid again.

The next year, 1991, he got a bill from Manufacturers Life for $249,521. Then for the first time since 1986, he got a bill from American General, for $54,530. He paid both.

The next year, he paid the two companies $250,682. In 1993, he forked out a total of $726,208. In 1994, he paid $683,539, and in 1995 and 1996, he paid an additional $1.3 million. In all, the policies that he says should have cost him nothing in additional premiums had drained away roughly $3.8 million in a little more than a decade.

Finally, he decided he had had enough. On July 31, 1995, Mr. Morris, his wife, Alice, and their three children -- David, Joe, and Sue Morris Leonard -- sued the two companies and the Michigan agent, for full reimbursement of all the premiums he had paid since 1985, plus interest. The suit also demanded assurances that there would be no future requests for premiums, that the policies would stay in force until Mr. Morris's death and that the two companies would pay the death benefits.

Judge David A. Hamilton of Federal District Court in Indianapolis is studying arguments from both sides and has given no indication when he will rule.

Even if Mr. Morris never recovers a penny, his potential losses -- including the initial $2.28 million and the $3.8 million in subsequent premium payments, will hardly drive his family to the poorhouse. He figures his net worth today is roughly $7 million, besides the insurance policies. Even so, he and his wife are angry at the way they believe they were cheated, and frazzled by the emotional toll of their battle with the insurance companies. ''The premiums have been devouring us,'' Mrs. Morris said.

THE deal with Mr. Morris, who even now, at 82, can summon up minute details of business ventures he undertook years ago, was very much like those that drew in tens of thousands of other Americans. Scores of companies, including giants like the Prudential Insurance Company of America, the Metropolitan Life Insurance Company and the New York Life Insurance Company, have been sued by clients who say they were coaxed into exchanging perfectly good policies for new ones in a practice known as churning, and plaintiffs' lawyers say they receive calls every week with new complaints. Most of the suits involve policies in the $25,000 to $200,000 range, not in the millions, as with the Morrises.

One company being sued by the Morrises, Manufacturers Life, is also trying to fend off policyholders seeking Federal court approval for a class-action suit.

''There are in excess of 1,800 life-insurance companies in the country and the vast majority engaged in this behavior through the 80's,'' said John Stoia, a San Diego partner in the law firm of Milberg, Weiss, Bershad, Hynes & Lerach, which has handled many of the cases and is engaged in the class-action effort against Manufacturers Life.

So far, about a dozen insurance companies, including Prudential, Metropolitan Life and New York Life, have agreed to pay more than $815 million in fines and compensation. In one of those settlements, Prudential has said it will be paying at least $410 million to compensate up to 10.7 million policyholders, and some analysts estimate that the costs for the company, the nation's largest life insurer, could run to $2 billion.

The lawsuits generally contend that agents -- who stood to gain a lot in commissions when they sold new policies -- misled customers by telling them that if they replaced their old life insurance policies with new ones providing double-digit returns, they would get more coverage and the new policies would virtually pay for themselves. Some companies, like Manufacturers Life, armed their agents with sales literature about ''Vanishing Premiums.''

According to most of the suits, the agents didn't adequately explain that premiums for new policies would start higher simply because customers were older, or warn them that interest rates were likely to fall eventually, forcing up premiums.

The new policies sold like hot cakes. But interest rates did decline, and the Morrises and legions of other policyholders found themselves confronting higher premiums than they had ever imagined. Many people, unable to keep up the payments, let policies lapse and lost everything they had put into them.

Mr. Morris's unusual strategy for transferring his wealth to his heirs through insurance policies rather than trusts gets mixed reviews. His plan was to spend most of his fortune -- which by the early 1980's totaled $31 million in cash, stocks and real estate -- in his final years and leave his family with roughly $35 million in insurance benefits. His twist was to grant ownership of the policies to the beneficiaries. While he has had to pay gift taxes of up to 55 percent on the premiums, he has eliminated the far larger estate taxes of up to 55 percent that they would have to pay on the $35 million if he had maintained ownership.

''It's a rare and sophisticated person who will pay gift taxes,'' said Alan S. Halperin, a Manhattan trust and estate lawyer. ''A lot of people would rather hold on to the money thinking they'll be able to do something magical with it. Or, they tell themselves, 'Maybe the tax laws will change.' ''

On the other hand, because insurance has a relatively low rate of return, Mr. Morris might have been able to build a bigger estate -- and still distribute it through gifts -- by investing in stocks and bonds. Bart L. Fooden, a financial planner in New York, said Mr. Morris probably would have been wise to diversify his portfolio beyond insurance. ''If he lives to 90,'' Mr. Fooden said, ''he will probably come out worse than if he had invested in stocks and bonds because he will have paid so much in premiums.''

No one can say what is the right number of insurance policies to own. But most experts say they usually think of a dozen as a lot. Lee Slavutin, a New York agent who represents several life insurance companies in transactions with wealthy clients, said people rarely buy insurance coverage that equals or exceeds the value of their estate, as Mr. Morris did. Dr. Slavutin, a physician who says he derives more joy from selling insurance than from practicing medicine, said people often estimate the cost of their estate taxes and buy a life insurance policy just to cover that amount.

But once Mr. Morris had amassed all his policies, consolidation may not have been the best remedy, Dr. Slavutin said. Because Mr. Morris was older, he had to pay a higher premium rate for the policies he bought in 1985. His health had deteriorated, and that pushed up his premiums, too. According to court papers, commissions drained more than $400,000 from money that might otherwise have gone to bolstering his old policies' cash value.

At the time of the consolidation, the Morrises' agent presented them written warning notices, as required by Indiana, Michigan and many other states, including New York. One warning from Manufacturers Life, signed by Mr. Morris, cautioned that the decision to buy a replacement policy ''could be a good one -- or possibly a mistake.'' It went on to advise, ''make a careful comparison of your existing policy and the proposed policy.''

Mr. Morris had always displayed a razor-sharp business acumen. He grew up helping his father in the corn fields of their 200-acre farm and in the family's weathered wooden grain elevator. At 14, he took a part-time job as a handyman at a Willy's Overland dealership run by his cousin. With a small loan from the local bank, quietly backed by his father, he began raising hogs. At 15 he bought his first car, a new Willy's Overland Whippet. That same year, 1929, on the day before the banks were closed, he withdrew $900 in savings and bought a new Chevrolet truck to start an ice-delivery business. And, at one of the worst points in the economic history of the country, he made money.

He married Alice Wood out of high school and never gave much thought to college. Instead, he settled in at his father's grain business. At 22, he was entrusted with half a dozen grain elevators.

When he sold the grain business for several million dollars 29 years later, he had 13 elevators, 17 tractor-trailer rigs and a fleet of 52 river barges, making him one of the biggest independent grain-elevator operators in the country. Mainly as a hedging device, he also held a seat on the Chicago Board of Trade.

To avoid heavy taxes when he sold the grain business, he found a clever way to reduce the cash in the transaction by getting his buyers to trade him a Florida cattle ranch, which, until he had come up with it, they had not owned. Then he went on to specialize in making big profits on real estate that no one else wanted to buy. He revived a failed plastics company and invested in banks. Once, he bought 100 half-finished railroad boxcars that were headed for the scrap heap. He sold the cypress interiors for more than he had paid for the cars, then made more money by sawing the cars in half and selling them as construction sheds.

MR. MORRIS was also an incredibly trusting man. In New York to sell his grain business, he left his suitcase with a taxi driver who promised to pick him up later and take him to the airport. The buyers in the grain deal were so stunned at what Mr. Morris had done that they trooped down to the front of their skyscraper, expecting to commiserate with the naive out-of-towner. To the amazement of everyone but Mr. Morris, there was the cabbie waiting at curbside, just as he had promised.

With the 7,000-acre ranch he received in the grain-business sale, Mr. Morris moved into real estate in Florida. He bought an agency in Sarasota with 13 employees and more than quadrupled the staff, earning commissions from the sales of homes and businesses, but just as important, using the company as a way to find properties he could buy and quickly resell at a profit.

It might seem incredible for a man with Mr. Morris's Midas touch to stumble into an insurance quagmire. But it isn't unusual at all, said Melvyn Weiss, a New York partner in Milberg, Weiss who has worked out more than a half-dozen settlements between big insurance companies and angry customers.

Mr. Weiss says the wealthy are as susceptible as anyone to insurance pitches and are just as befuddled by the arcane legal language in the documents. And, like everybody else, they usually assume that agents representing brand-name companies like Manufacturers Life and American General talk straight with them.

''They don't spend an inordinate amount of time studying the policy,'' Mr. Weiss said. ''The contracts are typically very, very confusing. The big companies have cultivated images of trust and people tend to believe what they're told.''

That is just about how Mr. Morris, a hulking man with a voice that has grown raspy as a consequence of his Parkinson's disease, says it went for him. ''I relied a great deal on the fact that he was a licensed agent for the insurance people and that as such, he should be reliable,'' Mr. Morris said of his agent, Mr. O'Neill.

Another factor leading to his imbroglio was the pride Mr. Morris took -- and still takes -- in doing things his way. While he says he calls on lawyers now and then to chisel into legalese the deals he has single-handedly shaped, and relies on a consulting firm to advise him on his taxes, he scorns the idea of seeking outside advice on whether to buy insurance or anything else.

''What for?'' he asked with a crusty edge one morning, straightening himself in a barrel-backed Windsor chair in the raw-brick lounge of his office. ''Who the hell could tell me when to buy or sell?'' On the walls were a couple of original Ringling Bros. and Barnum & Bailey posters. An antique slot machine sat on a roll-top desk and the brass nameplate from a Florida hotel that Mr. Morris bought and sold three times was propped up in a bookcase behind a miniature 1956 pink Cadillac convertible, like the red one he once owned.

And there really wasn't much to understand about insurance policies until the late 1970's, when companies began introducing a complex structure known as universal life. Previously, the most widely sold policies had paid a rather steady, albeit low interest rate with unvarying premiums and a gradual buildup of cash values that could be borrowed against. The new policies not only provided sharply higher interest yields, but permitted customers to vary what they paid in premiums, depending on how big a nest egg they were shooting for. They could even skip payments entirely, as long as enough cash had accumulated in the policy to cover certain basic operating expenses.

Not understanding the innovations, Mr. Morris now says, he felt he was paying up the new policies forever with the initial installment of $2.28 million. In fact, he was establishing a base against which he could earn interest. In court documents, Mr. O'Neill says that at Mr. Morris's suggestion he used 10 percent as the basis for projecting the performance of the policies. The two companies were then paying 10.5 percent and 11 percent. But interest rates fell. The two companies in the dispute are now paying between 5.5 percent and 6.5 percent. And, by not paying into the policies, but leaving them to draw down money to cover the minimum expenses, he was making matters worse, eroding the base against which interest might have been earned.

Besides, Mr. Morris says, Mr. O'Neill was pretty convincing. They had met when Mr. O'Neill bought a penthouse in one of Mr. Morris's condominiums in Sarasota. They struck up a friendship, and in 1985 Mr. O'Neill looked over Mr. Morris's vast insurance portfolio.

While Mr. O'Neill says in court documents that he showed computer projections of how the policies would perform with interest of 10 percent over 20 years, Mr. Morris says he and the agent did not dwell on the matter of interest rates. Rather, as he recalls, the agent explained that because of demographic and economic changes, insurance companies were able to offer more coverage at lower cost: People were living longer and, with higher interest rates, companies were receiving higher returns on their investments.

Mr. Morris said his understanding was that interest rates would not affect his out-of-pocket premium expenses, but would only alter how much the company made. ''They wouldn't lose,'' in any case, Mr. Morris said. ''They just wouldn't come out as well'' if rates dropped.

Mr. O'Neill would not speak with a reporter. But his lawyer, Mr. Weil, said Mr. Morris's version was contrary to what he was told and shown by the agent. Spokesmen for both companies declined to go beyond the voluminous documents in the case, although John E. Pluhowski, the director of corporate communications for the American General Corporation, the parent of the life insurance company, said his company had ''acted properly'' and strongly believed that the Morrises' complaint was ''without merit.''

In a letter to Mr. Morris's accountant that is dated March 6, 1985, and is part of the court record, Mr. O'Neill wrote that the annual premium for the 15 policies would be some $300,000, about $25,000 less than Mr. Morris had been paying on the policies that were to be consolidated. His point was that Mr. Morris's coverage would go from $6.4 million to $10.1 million and he would wind up paying a tad less in premiums.

''My client never represented to him that he would not have premiums to pay,'' Mr. Weil said.

Mr. Weil said the computer projections that are now a part of the case record, indicated that annual payments would be required on all but 2 of the 15 policies. In letters in the case record, Mr. Morris asked in late 1986 for a clarification on interest rates and asked at one point, ''Won't these policies carry themselves for the next three to five years without any additional payment.'' Responding to a query from Mr. Morris, Mr. O'Neill said in a letter on Nov. 24, 1986, that without further payments, 2 of the 15 policies would run for 14 years and the others would continue in force for four to seven years. Every year, Mr. Weil said, the companies sent Mr. Morris reports on each policy that included the warning that coverage would end in a few years if no further payments were made.

All that may be technically true, said Mr. Morris's son, David, a commodities trader who sat sat in on some of the discussions between his father and Mr. O'Neill. Even so, he believes his father was misled.

''I don't think he ever came out and said, 'here's a deal where I can assure you you will never have to pay any premiums again,' but that was the impression he gave,'' David Morris said. ''No rational person would have done what we did if he realized there was such a potential downside to it.''

Even Mr. Weil concedes that Mr. Morris may have been confused. As recently as a year ago, when Mr. Morris was questioned by lawyers for nearly eight hours, he was saying that no loans -- which he says he always avoided in his business ventures -- had been used to finance the 15 policies. ''But the bulk of this was pure loan money coming from existing policies,'' Mr. Weil said. ''He still couldn't fathom that.''

Mr. O'Neill's letter laying out the deal on the 15 policies did not mention the balance of Mr. Morris's policies, which now number 43 with a face value of about $25 million and annual premiums of about $220,000. Some of those policies are similar to the ones in dispute. But Mr. Morris says no one ever told him he would not have to pay premiums on them and he says he has no complaints. Most of the policies are on the lives of Mr. and Mrs. Morris, but some are on the lives of their children and grandchildren; consumer advocates discourage such policies on young children because they have no one to support and because other investments often provide better returns.

Mr. O'Neill was apparently up front about the $400,000 to $500,000 in initial commissions that he would receive in the transaction. In court documents, he said Mr. Morris directed him to share $50,000 to $100,000 of that fee with an agent who would be losing commissions on policies he had earlier sold Mr. Morris and who has since died.

THE fact that Mr. Morris made a series of payments over several years before the suit was filed has provided his opponents with ammunition to argue that the six-year statute of limitations in Indiana had run its course and that the case should be dismissed. Mr. O'Neill's lawyer says that if Mr. Morris expected not to pay any more premiums, he should have either filed suit in 1986 when the first demands for premiums were made or taken action ''to clarify what the situation was.''

But Mr. Morris's lawyer, Henry S. Alford of Louisville, says that his client regarded the payments in 1986 as reasonable adjustments to the deal and that when no premium requests were made in 1987 and 1988 he believed the policies were doing just as he had expected. It was not until late 1989, Mr. Alford says, that Mr. Morris began to believe he had been misled. Using that benchmark, Mr. Morris would be just within the time limit for bringing suit for intentional fraud.

But Mr. Weil said there was no fraud. ''There may have been some misunderstanding,'' he said, ''but there was no intentional fraud.''

Struggling to cope with the mounting costs, the family has abandoned two policies worth $1.68 million at redemption and turned over six other policies worth $5.1 million to a Chicago company that has agreed to keep up the premiums and give the family a diminishing percentage of the death benefit, depending on how long Mr. Morris lives. Five policies, with a face value of $4,605,811, are involved in the suit.

Mr. Morris still goes every morning to his rambling office on the second floor of a bank building he bought years ago in the heart of this southern Indiana city. In shirt sleeves, open collar and wide suspenders, he manages a substantial securities portfolio and a string of properties and keeps an eye out for new deals. Now, as he has for most of his life, he operates mainly on his own, assisted only by a secretary.

Over the years, Mr. Morris says, friends advised him that he had accumulated more than enough insurance. But he just kept buying, thinking he understood insurance. Now though, he confessed the other day, ''I don't think I know much about it.''