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BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of)	Docket No. 11-0276
)	
ALAN G. HAUGEN,)	FINDINGS OF FACT,
)	CONCLUSIONS OF LAW,
Licensee.)	AND FINAL ORDER
_____)	

TO: Alan G. Haugen
14910 Seabeck Hwy NW
Seabeck, WA 98380

COPY TO: Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
John F. Hamje, Deputy Commissioner, Consumer Protection Division
Charles Brown, Senior Staff Attorney, Legal Affairs Division
Carol Sureau, Deputy Commissioner, Legal Affairs Division
Office of the Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

Pursuant to RCW 34.05.434, 34.05.461, 48.04.010 and WAC 10-08-210, and after notice to all interested parties and persons the above-entitled matter came on regularly for hearing before the Washington State Insurance Commissioner commencing at 10:00 a.m. on April 26, 2012. All persons to be affected by the above-entitled matter were given the right to be present at such hearing during the giving of testimony, and had reasonable opportunity to inspect all documentary evidence. The Insurance Commissioner appeared pro se, by and through Charles Brown, Esq., Senior Staff Attorney in his Legal Affairs Division. Alan G. Haugen appeared pro se and represented himself throughout the proceedings.

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NATURE OF PROCEEDING

The purpose of the hearing was to take testimony and evidence and hear arguments as to whether the Insurance Commissioner's Order Revoking License, No. 11-0276, entered November 21, 2011, revoking the Washington resident insurance producer's license of Alan G. Haugen should be confirmed, set aside or modified. Said Order is based on the Commissioner's allegations, as stated therein, that the Licensee violated multiple provisions of the Insurance Code in his business interactions with Remi and Geraldine Bell by (1) failing to properly complete replacement forms, (2) selling products that were not approved for sale in Washington, and (3) providing incorrect and misleading information and making misleading or deceptive statements with respect to his credentials and as to the investment products he marketed to the Bells. On November 30, 2011, Alan G. Haugen filed a Demand for Hearing to contest the Commissioner's Order.

FINDINGS OF FACT

Having considered the evidence and arguments presented at the hearing, and the documents on file herein, the undersigned presiding officer designated to hear and determine this matter finds as follows:

1. The hearing was duly and properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied. This Order is entered pursuant to Title 48 RCW and specifically RCW 48.04; Title 34 RCW and specifically, for good cause shown, 34.05.458(8); and regulations pursuant thereto.
2. Alan G. Haugen ("Licensee") is an individual who is a resident of Seabeck, WA. He has held an insurance producer's license to sell life and disability insurance in Washington state since 1981, WAOIC Producer License No. 17419.
3. The Licensee has held himself out to be a "Certified Estate Planner" and includes the designation "CEP" after his name. The Licensee's business card identifies himself as a Certified Estate Planner for "Windsor Planning Group, Estate Planning Consultants" in Tacoma, WA. Nowhere on the Licensee's business card does it disclose that the Licensee is an insurance producer. [OIC Ex. 1, Licensee's business card.] While the Licensee occasionally presents information related to estate planning at gatherings which entice senior citizens and perhaps others to attend by offering them a free meal, the Licensee does not earn a material part of his income from estate planning/consulting unrelated to the sale of insurance.
4. In 1999, the Licensee participated in an estate planning presentation apparently directed at senior citizens, which offered a free lunch to those who attended. The presentation and lunch were attended by Remi and Geraldine Bell, husband and wife, who are residents of Washington. At that time, Mr. and Mrs. Bell were 71 and 73 years old, respectively. During the presentation, the Licensee held himself out as a Certified Estate Planner. Mr. and Mrs. Bell either chose to, or

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were required to, provide their names and contact numbers during this gathering. Subsequently, the Licensee contacted the Bells and scheduled an appointment to come to their residence. [Testimony of Mr. Remi Bell; Testimony of Mrs. Geraldine Bell; Ex. 1.]

5. At the time of the Licensee's visit to them, the Bells owned two IRAs which were conservatively invested in equities and bonds. At the Licensee's suggestion, the Bells agreed to withdraw funds from these IRAs to purchase two annuities issued by IL Annuity and Insurance Company for \$207,000 (Mr. Bell) and \$27,500 (Mrs. Bell) ("the IL annuities"). [Testimony of Mr. Bell; Testimony of Mrs. Bell; Testimony of Licensee; Exs. 2, 4, applications of Mr. and Mrs. Bell for the IL annuities.] These annuities had a guaranteed minimum interest rate of 3.5% with additional yield possible based on the annuity holder's selected cash value strategy, which could be changed by the annuity holder once every two years. The initial cash value strategy the Licensee recommended, and the Bells selected, was the guaranteed convertible bond strategy. The IL annuities had ten years of surrender penalties starting at 10% in the first year and declining to 1% in the tenth year. [Exs. 3, 5.] Although the Bells were of an age where it is questionable whether the purchase of these annuities is prudent, the Insurance Commissioner ("OIC") did not make this transaction an issue in this proceeding.

6. The Licensee received an approximately 6% commission for selling the IL annuities to the Bells. [Testimony of Licensee.]

7. In October 2001, the Licensee again contacted the Bells and induced them to withdraw \$100,000 from the IL annuities he had just sold them in 1999, withdraw another \$50,000 from Mr. Bell's retirement account, and invest this total of \$150,000 in thirty Colorado limited liability partnership units ("partnership units").

8. The partnership units which the Licensee sold to the Bells were not registered as securities as required. [SEC v. Merchant Capital, LLC, et al, 483 F.3d 747; 2007 U.S.App. LEXIS 7665 (2007).] Further, the Licensee was not licensed to sell securities.

9. To induce the Bells to purchase the partnership units, which were known as Vision Gold 16 RLLP and Vision Gold 11 RLLP, the Licensee told them that the units would generate 3% interest per quarter for three years and then all of their \$150,000 principal would be returned to them. [Testimony of Mr. Bell; Testimony of Licensee.] In fact, these partnership units paid interest until 2006. In 2006 they failed, and the Bells were advised that they were being liquidated. [Testimony of Mr. Bell; Testimony of Licensee.]

10. The Licensee received an approximately 7-8% commission for selling the partnership units to the Bells. By taking the Licensee's advice to purchase these partnership units, the Bells lost approximately \$50,000 of their \$150,000 investment. [Testimony of Victor Overholt, Investigator with the OIC; Ex. 22, Records prepared by Overholt.]

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11. In 2003, not content to leave any funds in the IL annuities he had originally sold them in 1999, the Licensee returned to the Bells and induced them to withdraw the remaining funds that were in their IL annuities and purchase two annuities issued by American National Insurance Company in a Sec. 1035 exchange. This purchase required upfront premiums to American National of \$76,889 and \$23,571. The Bells incurred a surrender penalty of \$7193.50 for these premature withdrawals from their IL annuities. [Testimony of Overholt; Ex. 22.]

12. The replacement forms which the Licensee was required to complete for the replacement of the IL annuities with American National annuities, for the protection of the consumers, contained several significant errors. [Exs. 6-10, 21, American National applications and replacement forms for Mr. and Mrs. Bell.] First, one copy of the replacement form bears a signature from Mr. Bell documenting his receipt of the completed copy of the replacement form on 2/10/03, 14 days after his purchase of his American National annuity on 1/27/03. [Ex. 8.] A second replacement form for this transaction bears his signature dated 10/23/03. [Ex. 9.] The replacement form for Mrs. Bell bears her signature dated 2/5/03, 9 days after her purchase of her American National Annuity. [Ex. 10.] Second, these copies of the replacement forms all bear different dates as to when the Licensee completed the disclosures on the forms and signed them: Mr. Bell's first form bears a date of 2/10/03 [Ex. 8], his second form bears a date of 10/13/03 [Ex. 9], and Mrs. Bell's form bears a date of 1/23/03 [Ex. 10.] Third, the replacement forms for both Mr. Bell and Mrs. Bell incorrectly state the amount of surrender penalties on the replaced annuities (Question No. 3): the Licensee disclosed to Mr. Bell on his replacement form that there would be a surrender penalty of \$2,410 when he knew or should have known that the actual surrender penalty would be \$5,509.86 [Exs. 8, 9], and the Licensee disclosed to Mrs. Bell that there would be a surrender penalty of \$969 when he knew or should have known that the actual surrender penalty would be \$1,683.64.

13. A fourth incorrect statement which the Licensee included in both Mr. and Mrs. Bell's replacement forms for replacement of their IL annuities with American National annuities involves Question 5, which asks whether interest earnings are a consideration in the purchase of the IL annuities. The Licensee answered "no" on both forms. The guaranteed interest rate under the two American National Insurance Company annuities that were being purchased was 3.25% with a 6% bonus at the end of the first year, representing \$4,018.45 for both annuities. Contrary to the Licensee's representations to the Bells, the bonus was less than the \$7,193.50 in surrender charges imposed by IL Annuity and Insurance Company on the two surrendered annuities. [Testimony of Overholt, Ex. 22.]

14. A fifth incorrect statement which the Licensee made in both Mr. and Mrs. Bells' replacement forms for replacement of their IL annuities with American National annuities involves Question 8, which asks if there are short or long-term effects from the replacement that might be materially adverse. As was clear in the applications and contracts for the American National annuities [Exs. 6, 7, 11, 12], the Licensee knew that because of the lower guaranteed rate and additional years of surrender penalties under the American National annuities being

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purchased, the Licensee's answers on both forms should have been "yes" but instead he falsely answered "no" to this question on both Mr. and Mrs. Bell's replacement forms.

15. The Licensee received an approximately 6-7% commission for inducing the Bells to take what remained of their IL annuities and purchase the above American National annuities.

16. In April and May, 2005, the Licensee once again returned to the Bells' home. By that time Mr. and Mrs. Bell were 77 and 79 years of age, respectively. At that time, the Licensee induced the Bells to replace the two American National annuities he had sold them in 2003 with two new annuities issued by OM Financial Life Insurance Company. First, for their replacement of the American National annuities which the Licensee recommended, the Licensee knew that the Bells would incur, and did incur, surrender charges on the American National annuities of \$7,008 and \$1,965, respectively. [Exs. 11, 12.] Second, the Licensee knew that the OM Financial Life annuities which the Licensee sold to the Bells imposed 14 years of surrender charges of 17.5% in the first year, reducing to 1% in the fourteenth year. Third, the Licensee knew that the OM Financial Life annuities provided for only a minimum interest rate of 1.45% annually. Fourth, contrary to the Licensee's representations to the Bells, the first year interest rate bonus provided in the OM Financial Life contracts did not equal or offset the surrender charges for the surrendered American National Income Life contracts. [Testimony of Overholt; Ex. 22.]

17. Further regarding the Licensee's sale of the OM Financial Life annuities to the Bells, the Licensee failed to complete any required Washington replacement forms for this transaction, whether incorrect or not. [Testimony of Overholt.]

18. Finally regarding the Licensee's sale of the OM Financial Life annuities to the Bells, the OM Financial Life annuities which the Licensee sold to the Bells were not approved for sale or use in Washington. [Testimony of Overholt.]

19. The Licensee received an approximately 7 ½ to 8% commission for inducing the Bells to replace the American National annuities he had sold them in 2003 with the above OM Financial annuities. [Testimony of Licensee.]

20. An additional aspect of the Licensee's sale of the OM Financial Life annuities to the Bells is that, at the Licensee's direction, the Bells purchased these annuities through a custodian trust domiciled in Colorado where the Licensee was also licensed. The trust, and not the Bells, was designated as the titular owner of the annuities. [Ex. 17.] Thus, the Bells' money was transferred to the Colorado trust which then purchased the annuities. The Licensee believed that he could circumvent Washington laws requiring approval of the OIC before annuities are purchased by Washington residents by having a Colorado trust buy the annuities even though the Bells were the actual purchasers. The Licensee also believed he could avoid having to provide the Bells with the replacement forms and disclosures therein because the Colorado trust bought the annuities even though the Bells were the actual purchasers.

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21. In 2006, due to the financial losses sustained by the Licensee's misrepresentations and advice, the Bells became unable to pay bills. Their daughter, Aimee Bell, then became involved in their finances and discovered the series of replacement transactions in which the Licensee had involved her parents over the years. Aimee Bell subsequently filed a complaint with the OIC. The Bells' efforts through their daughter to unwind the OM Financial Life annuities transaction and obtain a refund of the funds they had invested in the OM annuities through the Colorado trust was significantly frustrated and complicated by the trust's designation as the owner of the OM annuities. Indeed, Aimee Bell and Mr. and Mrs. Bell spent countless hours, weeks and months of their own time and effort in recovering what remained of their investment in the OM Financial annuities, with OM Financial Life refusing to cooperate with the Bells because the Colorado trust was the owner of the OM annuities and not the Bells. The Licensee provided no assistance to the Bells. Eventually the funds were released and OM Financial Life waived the surrender penalties based upon its conclusion that the annuities were not suitable for the Bells.

22. Alan G. Haugen appeared as a witness called by the OIC. Mr. Haugen presented his testimony in some detail but chose to overlook relevant facts, particularly those which clarified the unfortunate position he put the Bells in each time he replaced their investments with new investments, resulting in gain to himself and significant losses to them. He also simply failed to reflect on his lack of honesty in completing replacement forms, and on his lack of honesty in making so many false statements to the Bells regarding the terms of each replacement and new purchase he induced them to make, as if he could no longer understand the difference between truth and falsity.

23. Remi Bell appeared as a witness on behalf of the OIC. Mr. Bell presented his testimony in a detailed and very credible manner and presented no apparent biases. He is a calm, careful, industrious man who simply had no significant investment experience and so he reasonably chose to rely upon a professional to advise him. Mr. Bell is also very organized. His careful retention and organization of all of the records concerning the issues herein greatly enhanced the investigation and prosecution of this enforcement action and the OIC's case on appeal.

24. Geraldine K. Bell appeared as a witness on behalf of the OIC. While not the primary witness relating Mr. and Mrs. Bell's experience with the Licensee, Mrs. Bell mostly reaffirmed Mr. Bell's testimony. Mrs. Bell presented her testimony in a detailed and credible manner and presented no apparent biases.

25. Aimee Bell, daughter of Remi and Geraldine Bell, appeared as a witness on behalf of the OIC. Aimee Bell presented her testimony in a remarkably detailed, unbiased and credible manner. Clearly she spent months working to help her parents unravel this situation. Without her help, her parents may not have seen any return on the losses they sustained by virtue of the Licensee's activities and the OIC may not have had the opportunity to fully investigate this case.

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26. Victor E. Overholt, Investigator with the OIC, appeared as a witness on behalf of the OIC. Mr. Overholt presented his testimony in a very effective, detailed and credible manner and presented no apparent biases.

27. Based upon the above Findings of Facts, it is reasonable that the OIC's Order Revoking License, revoking the producer's license of Alan G. Haugen, No. 11-0276, be upheld. The activities of the Licensee found herein demonstrate blatant, repetitive, intentional dishonest acts of significant consequence against individuals who reasonably put their trust in his professional services. It is recommended that the OIC undertake a review of other consumers with whom the Licensee worked as it appears his primary target customers are senior citizens, or at least other individuals who may not have intervention from someone like Aimee Bell who are involved enough with them to become aware of the type of problems caused by the Licensee and to research and report their findings to the proper authorities.

CONCLUSIONS OF LAW

Based upon the above Findings of Facts, it is hereby concluded

1. The hearing herein was duly and properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied. This Order is entered pursuant to Title 48 RCW and specifically RCW 48.04; Title 34 RCW and specifically 34.05.458(8); and regulations pursuant thereto.
2. By identifying himself as a "Certified Estate Planner" when he does not earn a material part of his income from such business unrelated to the sale of insurance, the Licensee violated WAC 284-23-240(3) and 284-23-360(3).
3. By providing many incorrect and misleading information on the Washington replacement forms for the surrender and replacement of the IL annuities with the American National annuities, the Licensee committed multiple violations of WAC 284-23-440(2)(a).
4. By failing to provide completed Washington replacement forms to the Bells at or prior to the time of taking their 2003 annuity applications for American National annuities, the Licensee violated WAC 284-23-440(1).
5. By failing to complete Washington replacement forms for the surrender and replacement of the Bells' two American National annuities with the OM Financial annuities, the Licensee violated WAC 284-23-440(2)(a).
6. In selling the Bells the OM Financial annuities that were not approved for sale in Washington, the Licensee used and delivered forms that were not approved by the OIC, and thereby violated RCW 48.18.100.

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7. The Vision Gold partnership units which the Licensee sold to the Bells were securities required to be registered by state and federal authorities. In selling the Bells the Vision Gold securities which were not properly registered in Washington and elsewhere as required, the Licensee demonstrated himself to be, and is so deemed to be, untrustworthy and a source of injury and loss to the public and not qualified to be an insurance agent in the State of Washington as contemplated by RCW 48.17.530(1)(h).

8. In selling the Bells securities when he was not licensed to sell securities, the Licensee demonstrated himself to be, and is so deemed to be, untrustworthy and a source of injury and loss to the public and not qualified to be an insurance agent in the State of Washington as contemplated by RCW 48.17.530(1)(h).

9. By making numerous misleading or deceptive statements relative to the business of insurance when inducing the Bells to replace and purchase annuities over the years at issue herein, the Licensee violated RCW 48.30.040.

10. By misrepresenting and misleading comparisons in order to induce the Bells to surrender and replace annuities, the Licensee committed twisting and thereby on each of those occasions so violated RCW 48.30.180.

11. By misrepresenting the terms, benefits, and advantages of policies in order to induce the Bells to surrender and purchase annuities through him, the Licensee repeatedly violated RCW 48.30.090.

12. Based upon the above Findings of Facts and Conclusions of Law, it is hereby concluded that the Washington insurance producer's license of Alan G. Haugen, WAOIC Producer's License No. 17419, should be revoked.

ORDER

On the basis of the foregoing Findings of Facts and Conclusions of Law,

IT IS HEREBY ORDERED that the Washington State Insurance Commissioner's Order Revoking License No. 11-0276, revoking the Washington insurance producer's license of Alan G. Haugen, WAOIC Producer's License No. 17419, is hereby upheld.

IT IS FURTHER ORDERED that Alan G. Haugen shall surrender his Washington insurance producer's license to the Office of the Insurance Commissioner, P.O. Box 40255, Olympia, WA 98504-0255, within 10 business days of the date of entry of this Order.

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ENTERED AT TUMWATER, WASHINGTON, this 21st day of August, 2012, pursuant to Title 48 RCW and specifically RCW 48.04 and Title 34 RCW and regulations applicable thereto.



PATRICIA D. PETERSEN
Chief Presiding Officer

Pursuant to RCW 34.05.461(3), the parties are advised that they may seek reconsideration of this order by filing a request for reconsideration under RCW 34.05.470 with the undersigned within 10 days of the date of service (date of mailing) of this order. Further, the parties are advised that, pursuant to RCW 34.05.514 and 34.05.542, this order may be appealed to Superior Court by, within 30 days after date of service (date of mailing) of this order, 1) filing a petition in the Superior Court, at the petitioner's option, for (a) Thurston County or (b) the county of the petitioner's residence or principal place of business; and 2) delivery of a copy of the petition to the Office of the Insurance Commissioner; and 3) depositing copies of the petition upon all other parties of record and the Office of the Attorney General.

Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: Alan Haugen, Mike Kreidler, Michael G. Watson, John F. Hamje, Esq., Charles Brown, Esq., and Carol Sureau, Esq.,

DATED this 22nd day of August, 2012.



KELLY A. CAIRNS