MARCH 15/77

THE NEW YORK TIMES, TUESDAY, MAR

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Union Welfare Funds Are Fleeced Of Millions in Reinsurance Plan

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money and run, a beautiful instrument for fraud."

In both the teamster case and the Texas-Arizona case, the primary policy-writer was the Old Security Life Insurance Company, a 25-year-old company of excellent reputation with headquarters in Kansas City, Mo. However, administrators of the Central States Fund alleged in Federal court that they had not been told of a side arrangement under which Old Security had committed itself to turn over 80 percent of the teamster business and premiums to the Family Provider Life Insurance Company of Phoenix, a dormant Arizona company controlled by the alleged conspirators.

The fund trustees also accused the alleged plotters of concealing the fact that they had arranged to pay former Attorney General Richard G. Kleindienst a $250,000 commission to line up the fund account.

Receipt of Fee Acknowledged

Mr. Kleindienst has acknowledged that his former law firm received the fee, after he telephoned Frank E. Fitzsimmons, president of the International Brotherhood of Teamsters, and helped steer the fund premiums to the alleged conspirators. He has refused requests to return the money, which he shared with Thomas D. Webb Jr., another Washington lawyer.

The effort to unravel the teamster controversy has opened up an ever-broadening tangle of reinsurance arrangements, which now center on two Louisiana companies, both of which are in 'nancial trouble. Policies with a face lue of close to $100 million are report-y in jeopardy.

'owever, attorneys for Old Security 't that it acted in good faith in at-ting to divide the risks and that it up as a victim in its own right. e primary policy holder, we are 100 cents on every dollar of insur-m, even though they got 80 cents premium and reserve dollar," y Elden of Chicago, an Old Se-yer.

Texas-Arizona case, Old Security f 100 percent of its obligation ashington American Life Insur-pany of Phoenix, keeping only of the premiums for itself as ee. Mr. Low said Washington American was "on its way to collapse" as a result of manipulation by the Texas conspirators, but Jeremy Butler of Phoenix, attorney for Washington American, disputed that contention. The company is opposing the state's motion that a receiver be appointed.

Legal papers in both situations already could fill a half-dozen libraries, with no end in sight. However, the staff of the permanent subcommittee on Investigations of the Senate Government Operations Committee is not waiting for the courts to rule before turning a Congressional spotlight on the reinsurance system and the possibility of Federal action to correct state laxity.

The subcommittee, under Senator Sam Nunn, Democrat of Georgia, has been working for five years on another type of welfare fund abuse, the adoption in many teamster locals of a severance pay life insurance plan as a device for inflated commissions and kickbacks. Mr. Fitzsimmons's eldest son, Richard, vice president of Local 299 of Detroit, is under Federal indictment on charges of embezzlement in connection with such a plan.

S.E.C. Is Studying the Issue

While this study moves toward Senate hearings later this month, the committee staff has begun a parallel study into the reinsurance racket. The S.E.C. is also studying the issue, especially in the light of the new Pension Reform Act.

Earlier Federal laws, as interpreted by the Supreme Court, leave all matters involving relations between insurance companies and their policy holders in the jurisdiction of the states. "It may be that is too restrictive a rule when one considers the huge ripoffs possible through unsupervised reinsurance arrangements," one S.E.C. aide said.

A spokesman for the American Council of Life Insurance, an industry information center, defended reinsurance as a basically desirable practice for both industry and public protection, but added: "The mind of man looking at a mechanism for transferring risk can, with the same ingenuity, turn it into a device for transferring loot."

In a similar vein, Prof. William Young of Columbia Law School observed that the problems in this field might indicate the need for greater vigilance on the part of insurance commissioners, rather than tighter laws.