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## Broken Dreams

By Laura Washington

*After a round of layoffs, workers at Emergi-Lite figured things couldn't get worse. Then the CEO told them that their 401(k) had gone belly up.*

The Saturday after Christmas, June Bavin was so busy preparing for her holiday dinner party she didn't open her mail until late in the day. There among the bills and fliers was a letter from her employer, Emergi-Lite, a Westbrook, Conn. company that makes emergency lighting products. When she finally opened it shortly before her guests were due to arrive, she got the shock of her life. The letter—really a five-paragraph memo—was from Emergi-Lite's CEO. It said there had been "substantial losses" in the company's 401(k) plan and that for years the plan's trustee had been covering up the losses, using subsequent contributions to honor requests for withdrawals and loans. While Emergi-Lite and its attorneys were looking into "possible recourse," the letter continued, all "requests for withdrawals, rollovers or loans must be deferred."

To Bavin, a 56-year-old customer rep, the upshot was clear: Her \$50,000 nest egg had been shattered. "I sat down, and I read it," she says. "And read it again,

and showed it to my husband. He said, 'That's got to be a joke. How could that happen?' "

That same day, many among the 80 or so other current and former Emergi-Lite employees who had contributed to the plan were reading the same letter-which could hardly have come at a worse time. Just three months earlier, the company had announced that it was going to close the Westbrook facility, lay off most of its 135 employees and move operations to South Carolina. Now, the plan participants were not just out of their jobs but also their retirement savings. According to the company, there was now only about \$137,000 left in a plan that had been thought to total more than \$1.8 million.

As she greeted her dinner guests that evening in December, Bavin was still reeling. She kept replaying the financial decisions she'd made over the past decade. Back in the '80s, she'd sold a summer home and other investments and had taken out loans to put her daughter through college. She and her husband had sold a florist business, and she'd signed on at Emergi-Lite in 1988, partly because it offered retirement benefits. She had been in her mid-forties then, and she figured she had 20 years to save. She contributed the maximum every week, and she felt good about it.

Now she kept pondering the same questions: Where did the money go? How could such losses have occurred? Who, ultimately, was responsible? Was the plan covered by insurance?

Months later, those questions have yet to be answered, and Bavin has become one of the leaders of a group of former employees who are fighting to get their money back. "Our lawyer will resolve this," she says with a hopeful air. "That's the only thing keeping me sane."

Any attempt to untangle what went wrong at Emergi-Lite must start with a look backward. The company was co-founded by former marketer Edward Scovel in

1978. Manufacturing the emergency exit signs found in commercial buildings, it grew to 100 employees by 1982. It was the following year when Scovel and his partners bought the 51% of the company that they didn't already own from the Kaufel Group, a Canadian company. Three years later, having bought out his partners, Scovel sold Emergi-Lite back to Kaufel for \$6.2 million.

Today, Kaufel is one of the world's largest manufacturers of emergency lighting systems. A publicly traded holding company with 1,680 employees and \$168 million in annual sales, the Montreal-based Kaufel has 15 subsidiaries in Australia, Barbados, Canada, Europe, Hong Kong, New Zealand and the U.S.

With \$39 million in sales last year, Emergi-Lite is the largest of the U.S. subsidiaries. But its sales have been flat in recent years, the result of a tepid office-construction market and competition for various U.S. lighting companies. It was a plan to cut costs that led Kaufel to pull the plug on the Westbrook factory and consolidate U.S. operations in South Carolina. That decision was a blow not only to the company's 135 employees, only 12 of whom were asked to relocate, but to Westbrook, a charming community of just over 5,000 residents on the Long Island Sound, full of historic homes dating to the 1700s. Many who lost their jobs assumed things couldn't possibly get worse. They were wrong.

Emergi-Lite had introduced its 401(k) plan in 1985. Then-CEO Scovel recalls it was met with a 95% acceptance rate. "I offered everyone a \$100 bonus to join," he says. "That little carrot got them in."

The company also agreed to kick in 50¢ for each employee dollar contributed, up to 4% of the employee's salary.

Large firms that introduce 401(k) plans can turn to a big mutual fund company, bank or other institution to manage the plan. Nowadays, that's true for smaller companies too-but back in 1985, things were a little different. Smaller companies then may not have been able to afford this option and often turned to smaller institutions. Instead of offering a menu of mutual fund and other investment

choices, these small firms might pool employee savings and hire an outside firm to manage the money and keep the company and plan members informed through quarterly and annual reports.

Emergi-Lite's board interviewed several such organizations before choosing the nearby Moore Benefit Systems, presided over by Gary Moore. A long-term Aetna employee who had risen to manager in the employee-benefits division, Moore had started his own company. Scovel recalls that Moore's proposal indicated middle-of-the-road returns but seemed safer than some of the other plans-and it carried a lower commission. "He seemed to be the best bet," says Scovel, who is now retired.

Hank and Pattie Dammeyer were among the original contributors when the company introduced the plan. Pattie, a production supervisor, had hired Hank to work on the assembly floor the year the company opened, and they married five years later. For a dozen years beginning in 1985, they squirreled away a portion of their earnings in Emergi-Lite's retirement fund., their diligence spurred in part by necessity: Pattie, 46, has suffered from primary lateral sclerosis for 10 years and now uses a walker or cane to get around. Her father suffers from a similar condition and has spent the past 19 years away from his family in a convalescent home, a fate Pattie hopes to avoid. To that end, she and 56-year-old Hank, a salesman, had built a 401(k) balance of \$230,000 by 1997. At least, that's what their statement said.

For years, Emergi-Lite's 401(k) seemed to operate smoothly, with people moving money in and out without incident. But in retrospect, the employees would remember some annoyances and peculiarities. Several now say they didn't always get annual statements. The statements they did get-copies of which were provided to MONEY-were brief, stating that all assets were invested in "fixed funds" with three insurance companies.

Even so, employees say, none of this set off any alarms. When Hank Dammeyer landed a sales job at another lighting company last October-about a month after Emergi-Lite announced its layoffs-he put in a rollover request with Emergi-Lite's accounting supervisor, who, Dammeyer says, left messages for Gary Moore at his Granby, Conn. and West Palm Beach, Fla. Offices. Eventually, Dammeyer says, he got Moore's number and started placing the calls himself. "Gary told me there was a 90-day insurance loophole holding the money up." says Hank. "He said I could expect to get the money the first week of January."

Hank and Pattie are still waiting.

The way Phil Morreo, Emergi-Lite's current CEO, tells it, he found out about the 401(k) problems on Sunday, November 23. For months the 51-year-old executive had been dividing his time between Connecticut and South Carolina. That particular Sunday, he was in Westbrook without his family, so he'd gone in to the office after breakfast and found a week's worth of

mail piled on his desk. In the stack, he says, was a letter from Gary Moore marked STRICTLY CONFIDENTIAL AND PRIVATE.

Mooreo says he figured this had something to do with his request to have Moore come and meet with laid-off employees about rolling their money out of the 401(k). While Emergi-Lite declined to provide MONEY with this letter, an attorney representing Emergi-Lite employees furnished a copy he says came from the company. "Phil," it begins, "this is the hardest letter I have ever written and my sincerest apologies are extended." Some "unfortunate investments" in 1992, particularly in one insurance company, had wiped out much of the plan's assets. "Since 1992 I have been paying plan benefits out of current cash flow," the letter states. "While remorse doesn't mean much at this stage, I am truly sorry."

Like the Dammeyers, Morreo had been contributing to the plan since the mid-1980s; he says he had more than \$150,000 in it. But Morreo, a former sale

manager who rose to CEO in 1990, says that his first thought was not of his own money. "I dropped to my knees," he says. "I know that sounds dramatic, but I'm a guy that cares about my employees. I was devastated not only for myself but for everybody."

The first thing Morreo did was call Alan I. Scheer, an attorney with a Bridgeport, Conn. firm that represents Emergi-Lite. Since that moment, the company has tried to focus the blame squarely on Gary Moore. Nevertheless, it has filed no formal charges against Moore, who now lives in West Palm Beach. Moore himself has consistently declined to discuss Emergi-Lite, and his lawyer, Martin Gold of Hartford, did not respond to a list of detailed questions from MONEY. Thus far, no one has been able to determine whether Moore really did blow the money on a bad investment with an insurance company.

Meanwhile, desperate to learn the fate of their savings, some former Emergi-Lite employees have been looking beyond Moore Benefit Systems for answers. After all, even if Moore really did invest poorly, the questions remains: How did he manage to hide it for so long? And shouldn't someone with the company have been paying attention?

Kazumi Hartley, 46, a production line supervisor who had worked at Emergi-Lite for 14 years, had not yet received the letter from Morreo when she showed up for work at 8:30 a.m. on the Monday after Christmas. She found everyone buzzing about a surprise meeting called for 9 a.m. "It must have something to do with the company move," she thought.

Not exactly. Many of Hartley's colleagues had also received the CEO Morreo's letter on Saturday or had been contacted over the weekend by others who did. The emotions of many of the 60 or so workers who crammed into the company's modest cafeteria were already running high. At the front of the room stood Morreo, wearing a dark suit and looking weary as he adjusted and readjusted his

tie. Attorney Scheer was with him. In apologetic tones, Morreo read aloud the letter he said he'd received from Gary Moore.

While Hartley listened, she thought about the \$60,000 balance in her account.

She had been saving the maximum since 1988. When the company had announced the move and layoffs in September, Hartley had decided to roll her money into another investment to let it grow until she and her husband, an engineer at General Electric, retired.

As Hartley stood silently, other employees around her grew increasingly agitated.

There were tears of disbelief. A sort of rumble ran through the crowd. Many of them were incensed that Morreo had waited more than a month to disclose the problem. "Why didn't you tell us as soon as you found out the money was gone?" someone shouted. "Why did you let us keep putting the money in?"

"You know I've always treated you like family," Morreo replied. "I didn't want to ruin your Christmas holiday with the bad news."

The rumbling doubled. Five or six men and women were yelling out questions.

"How are we going to get our money back?" shouted one.

In reply, Morreo forced his way into the crowd and took a seat, as if to underscore his own status as a plan member and victim. Lawyer Scheer took the floor, and a few older employees helped quiet the crowd. Scheer explained that the company had delayed telling employees in hopes there would be something more concrete to say. He assured everyone that the company was looking into what reliefs its insurance could offer. Back at her workstation after the hour-long meeting, one 67-year-old employee passed out and had to be rushed to the hospital.

Hartley began to wonder when she and her husband would be able to retire if she had to start saving from scratch.

The Hartford Courant ran a story the following day. Four local television stations then descended on the Emergi-Lite building, as did state and local politicians, including U.S. Sen. Christopher Dodd and representatives of the Department of Labor and the Federal Bureau of Investigation.

When two visiting Department of Labor officials met with Morreo and Scheer, two employees, June Bavin and credit manager Don Briere, sat in. The officials wanted to know who at Emergi-Lite was responsible for overseeing Moore; the answer seemed to be no one. Says Briere: "That was the first time we heard anyone indicate that the company might have some responsibility in this."

Some smaller companies hire two or more entities to run the 401(k) plan. One scenario: One entity serves as record keeper, tracking the flow of funds and keeping on top of participant account balances and valuation; the other, as trustee, is responsible for managing plan assets. This division can act as a natural safety net. But in 1986, Moore Benefit began serving as both record keeper and trustee of Emergi-Lite's plan, according to a trust agreement provided to MONEY by the employee's lawyer.

That meant every month, after 401(k) contributions were deducted from employee's salaries, a check was cut to Moore Benefit Systems, which was then to invest the money directly. Under the Employee Retirement Income Security Act (ERISA), the firm was obliged to keep Emergi-Lite and plan members informed of what those investments were and how they were performing.

Edward Scovel, Emergi-Lite's CEO when the plan was created, says that in the plan's first year he met several times with Moore to review the plan's investments and their performance. But that practice seems to have fallen by the wayside. Initially, Morreo told MONEY he could not recall ever meeting Moore; he now says he remembers meeting Moore perhaps a half-dozen times over the past seven or eight years-but only casually. Morreo says he never had a substantive conversation with Moore about the 401(K) or its performance: "There

was no reason to." The only people who did interact with Moore on a regular basis, it seems, were administrators who relayed employee request and queries by phone