NEWS
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THREE AFFILIATED WITH EMPLOYERS MUTUAL ARRESTED FOR OPERATING BOGUS HEALTH INSURANCE PROVIDER

Three people were arrested this morning for allegedly orchestrating a scheme to defraud the customers of Employers Mutual LLC, a company that purported to provide health care coverage to more than 20,000 people across the United States, but left more than $30 million in unpaid claims for medical services when it was shut down.

Federal authorities this morning arrested the three defendants who were named in a 37-count indictment returned April 29 by a federal grand jury in Los Angeles. The defendants are:

- James Graf, 43, of Canyon Lake, who operated Employers Mutual;
- William Kokott, 60, of Burbank, an owner of Employers Mutual who at times called himself chairman of the company; and
- Kari Hanson, 43, of Canyon Lake, Graf's girlfriend who at times called herself the director of operations for Employers Mutual.

All three defendants are expected to make their first court appearances this afternoon in United States District Court in Los Angeles.

Between the fall of 2000 and December 2001, the three defendants collected more than $14 million in premiums purportedly to provide health care coverage under Employers Mutual's plans. Graf, Kokott and Hanson misrepresented to insurance agents and the public that Employers Mutual's plans were insured through one or more legitimate insurance companies, including Sun Life of Canada, United Wisconsin Life Insurance Company and Golden Rule Insurance Company.

While state laws, such as those in California, require an insurance company to obtain a certificate of authority before offering insurance coverage, Employers Mutual purported to operate pursuant to ERISA, the Employee Retirement Income Security Act of 1974. ERISA allows employers and certain organizations such as unions to offer health care coverage plans. Such plans may operate without the prior approval of the United States Department of Labor (the agency that regulates ERISA plans). Employers Mutual's claim of ERISA compliance shielded the scheme from the scrutiny of the California Department of Insurance, which previously had sanctioned Graf for running an unauthorized health insurance business.

The indictment alleges that the defendants committed fraud by, among things, misappropriating more than $2.3 million in premiums, including $1 million in payments to two fictitious vendors set up for the benefit of the defendants, and not paying most of the claims.

In May 2001, the Employee Benefits Security Administration of the Labor Department notified Employers Mutual that it had commenced an investigation into the operations of the company. During the course of the Labor Department's investigation, Graf allegedly sought to obstruct the investigation by instructing Employers Mutual employees to conceal information from investigators. Kokott allegedly sought to obstruct the investigation by, among other things, lying to investigators about a variety of topics, including the compensation that Graf and Kokott received from Employers Mutual. Hanson allegedly sought to obstruct the investigation by producing fictitious documents in response to a Labor Department subpoena.

Between August and October 2001, insurance commissioners for the states of Florida, Colorado, Texas, Oklahoma and Nevada ordered Employers Mutual to cease transacting insurance business in their states.

In December 2001, the Labor Department filed a civil lawsuit in United States District Court for the District of Nevada seeking, among other things, to remove Graf, Kokott and Hanson from EM and to freeze the assets of Employers Mutual, Graf, Kokott and Hanson. On December 13, 2001, the court issued the requested order, which Kokott and Hanson allegedly violated by moving and liquidating assets.

"In 1998, the State of California shut down Graf for running an unauthorized insurance company," said United States Attorney Debra W. Yang. "In 2001, the insurance commissioners for at least five different states ordered Employers Mutual to stop doing business in their states. The indictment alleges that despite these efforts Graf continued to victimize small businesses and workers who trusted Graf to provide health benefits. We hope these criminal charges will put an end to the fraud."

Deputy Attorney General James B. Comey stated: "The Department of Justice is committed to the prosecution of individuals who operate bogus health insurance schemes. These schemes victimize the employees, individuals and families who believed they had health care coverage but are left uninsured with devastating personal liability for unpaid medical claims."

All three defendants are charged in the indictment with conspiracy, five counts of mail fraud and ten counts of misappropriation in connection with a health care benefit program. The indictment also alleges that all three defendants committed unlawful monetary transactions. Kokott and Hanson are charged with obstruction of justice in relation to the Labor Department lawsuit, and Hanson is additionally charged with obstructing a federal grand jury investigation.

"One of the Department of Labor's highest priorities is to protect the benefits of workers and their families," said Ann L. Combs, Assistant Secretary of Labor for Employee Benefits Security. "These corrupt individuals took advantage of the trust that small businesses and their workers placed in them to provide health benefits. Today's indictments demonstrate our commitment to vigorously pursue those who prey on people seeking affordable health coverage for themselves and their families and ensure that they are prosecuted to the fullest extent of the law."

California Insurance Commissioner John Garamendi stated: "I commend federal authorities for their actions to deliver justice in this case. This illustrates the danger that so-called health plans operating outside of California's regulatory structure pose to health care consumers. We will remain vigilant in our efforts to protect Californians from these unregulated plans."

Graf, if convicted of all counts, could be sentenced to as much as 160 years in federal prison and fined $4.75 million. Kokott, if convicted of all counts, could be sentenced to as much as 220 years in federal prison and fined $6.25 million. Hanson, if convicted of all counts, could be sentenced to as much as 250 years in federal prison and fined $7 million.

An indictment contains allegations that a defendant has committed a crime. Every defendant is presumed innocent until and unless proven guilty beyond a reasonable doubt.

On March 3, 2004, the United States General Accounting Office issued a report that examined the actions of Employers Mutual and similar entities. The report, "Private Health Insurance: Unauthorized or Bogus Entities Have Exploited

Employers and Individuals Seeking Affordable Coverage" (GAO 04-512T), was presented to the Senate Committee on Finance for Congress' consideration.

Employers Mutual, LLC is unrelated to Employers Mutual Insurance Company of Des Moines, Iowa.

This case was investigated by the Employee Benefits Security Administration of the United States Department of Labor, the IRS-Criminal Investigation, the United States Postal Inspection Service and the California Department of Insurance, which received assistance from the California Department of Justice.

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