News Release

U.S. Department of Labor
Office of Public Affairs
Washington, D.C.
USDL 03-556

For Immediate Release
Oct. 14, 2003
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Nevada Court Enters $7.3 Million Judgment Against Principals of Employers Mutual

WASHINGTON — As a result of a case brought by the U. S. Department of Labor, a federal court in Reno, Nev. entered a default judgment requiring the principals of Carson City-based Employers Mutual, LLC and affiliated companies to pay $7.3 million in losses suffered by health plans operated by the corporation. The judgment restores financial losses that resulted from the self-dealing and mismanagement of James Lee Graf, William R. Kokott, Nicholas E. Angelos, Kari Hanson and their companies.

"The Employers Mutual defendants showed a callous disregard for the health benefit needs of small business employers and their workers. At a time when employers are finding it hard to obtain health coverage, these defendants schemed to rob small businesses and workers of health benefits for personal financial gain. The court's $7.3 million judgment is the first step toward making these workers and their families financially whole," said U.S. Secretary of Labor Elaine L. Chao.

The judgment also permits the department to seek additional money to cover unpaid health claims of workers and their families, estimated at $27 million. Thomas Dillon, the independent manager appointed by the court, will determine the exact amount of the unpaid claims owed by the plans.

In December 2001, the department obtained a temporary restraining order freezing the assets of Employers Mutual, the affiliated associations and their principals, and appointing Mr. Dillon to oversee the plans and pay benefits owed to participants. Employers Mutual is a national network of 16 affiliated associations that provided health benefits to more than 22,000 participants and beneficiaries covered by employer-sponsored health plans.

The department also simultaneously filed a lawsuit alleging that the defendants violated the Employee Retirement Income Security Act (ERISA) by diverting a substantial portion of contributions collected by Employers Mutual to their companies and personal accounts. From January to October 2001, the defendants spent $6 million of plan assets purportedly on administrative expenses – including $1.5 million paid to themselves -- while paying only $3 million in health benefits. The defendants also delayed processing health claims (resulting in million of dollars in unpaid claims), failed to operate the plans in an actuarially sound manner, and paid excessive fees for services provided to the plans.

The San Francisco regional office of the department's Employee Benefits Security Administration investigated the case. Employers and workers can reach the San Francisco Regional Office at (415) 975-4600 or through EBSA's toll –free number, 1-866-444-3272, for help with problems relating to private-sector health and pension plans.

(Chao v. Graf)
Civil Action No. CV-N-01-0698-DWH(RAM)