



Department of Justice

04-17-06 -- Ruth, Donald -- Sentencing -- News Release

Owner of Bankrupt Medical Benefits Company Sentenced to 84 Months in Prison

TRENTON – The owner of a defunct Wayne-based health benefits management company was sentenced today to 84 months in prison for mail fraud and tax evasion for misleading subscribing participants and employers about the management of premium payments and embezzling from commingled accounts, all of which ran the business into bankruptcy, U.S. Attorney Christopher J. Christie announced.

U.S. District Judge Anne E. Thompson ordered a hearing for June 9 to determine the amount of restitution to be paid by Donald Ruth, 65, formerly of Hackensack and now of Hudson, Fla. Judge Thompson will also consider the amount of any fine at that time.

Ruth remains free on a \$100,000 unsecured bond and must report to the federal Bureau of Prisons within 10 days of designation of the facility where he will serve his sentence.

Ruth pleaded guilty on Sept. 22, 2005, admitting that, with the diverted and commingled funds of Wayne, N.J.-based Meridian Benefit, Inc., he purchased a Florida home, a boat and paid for travel and other personal expenses – in addition to receiving more than \$1.5 million in income. Ruth was the president and sole shareholder of the company between 1999 and mid-2003, when Meridian collapsed and filed for bankruptcy, leaving approximately \$15 million in unpaid insurance claims.

Also pleading guilty last September was Meridian's former corporate counsel, Ben Zander, a Cherry Hill attorney. Zander pleaded guilty to one count of being an accessory after the fact to mail fraud, admitting that he was aware of Meridian's practices and assisted in concealing the fraud from Meridian participants and insurance regulators.

Zander is scheduled to be sentenced on May 3.

Meridian was established by Ruth as a third-party administrator of health benefit plans such as those established by employers for their employees. The company also negotiated discount group rates with medical providers and processed and paid claims submitted for services rendered by providers. Participating employers or groups paid premiums on a monthly basis to Meridian to cover the costs of claims.

In its time of operation, Meridian had more than 200 participant groups, made up of mostly small business participants, with more than 16,000 individual participants. The company collected close to \$40 million from the participant groups.

Ruth and Meridian promised and represented that funds collected from participant groups would be segregated and held in trust accounts. In another feature that made the company particularly attractive and provided a significant inducement for potential subscribers, Meridian represented that claims exceeding the amount due and paid by subscribing groups were covered by "stop-loss" and/or re-insurance, which were included in the Meridian benefits package. Meridian sold and promoted its services through sales agents across the United States.

Despite his promises and representations to the contrary, Ruth admitted that he commingled participant group funds and then used them to cover excess loss claims. By commingling the funds, he admitted, Meridian concealed that fact that no stop-loss or reinsurance was in place to cover the excess claims.

Throughout the concealment, Ruth admitted, he induced continued payments from current participants while aggressively soliciting others to further the scheme. To further prevent detection, Ruth admitted that he with others did mass mailings to participants with false assurances of future payments and disseminated a roster of false explanations to customer service personal to explain and delay claim payments.

Ruth also admitted that for tax years 2001 and 2002, he embezzled \$102,345 and \$676,464, respectively, and used the money for personal purposes, including the purchase of a home in Tarpon Springs, Florida and a boat. Ruth admitted that he filed false income tax returns that did not report this additional income.

U.S. Attorney Christie credited Special Agents of the IRS Criminal Investigation Division, under the direction of Special Agent in Charge Patricia J. Haynes; the U.S. Postal Inspection Service, under the direction of Postal Inspector in Charge Thomas C. Van de Merlen; the U.S. Department of Labor Office of Inspector General, under the direction of Inspector General Gordon S. Heddell in Washington; Special Agents of the FBI, under the direction of Special Agent in Charge Leslie Wisner, Jr., and Senior Investigators with the Department of Labor Employee Benefits Security Administration.

Defense Counsel:

for Ruth: K. Anthony Thomas, Esq. Federal Public Defender's Office

for Zander: Louis Miron, Esq., Westfield