

09-22-05 -- Ruth, Donald et al. -- Guilty Pleas -- News Release

Owner of Bankrupt Medical Benefits Company Admits Fraud; Corporate Attorney Also Pleads Guilty

TRENTON - The owner of a defunct Wayne-based health benefits management company pleaded guilty today to mail fraud and tax evasion, admitting that he misled subscribing participants and employers about the management of premium payments, embezzled from commingled accounts and ran the business into bankruptcy, U.S. Attorney Christopher J. Christie announced.

Donald Ruth, 64, formerly of Hackensack and now of Hudson, Fla., admitted 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 today before U.S. District Judge Anne E. Thompson 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.

Judge Thompson scheduled Ruth's and Zander's sentencing for Jan. 5.

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.

For the one count of mail fraud, Ruth faces a maximum penalty of five years in prison and a \$250,000 fine, and the same maximum penalties for tax evasion.

For the one count of being an accessory after the fact to mail fraud, Zander faces penalties equal to not more than one-half the statutory maximum terms of imprisonment and statutory fines prescribed for the punishment of the principal (Ruth).

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.

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Defense Counsel:

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

for Zander: Louis Miron, Esq. Westfield