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Release No. 07-016

February 5 , 2007

OPERATOR OF EMPLOYERS MUTUAL GOING TO PRISON FOR 25 YEARS FOR OPERATING BOGUS HEALTH INSURANCE PROVIDER

Los Angeles, CA - A Southern California man found guilty of bilking the customers of Employers Mutual LLC – a company that falsely purported to provide health care coverage to more than 20,000 people across the United States – was sentenced today to 25 years in federal prison and was ordered to pay more than \$20 million in restitution.

James Graf, 45, received the sentence for collecting millions of dollars in premiums from people who thought they were insured, but were left facing more than \$20 million in unpaid claims when Employers Mutual was shut down.

Graf, who has been in prison since his arrest on federal charges in this case, was sentenced this afternoon by United States District Judge Margaret M. Morrow, who said the crime led victims to suffer a "gnawing fear about huge unpaid medical bills."

In addition to the 300-month prison term, Judge Morrow ordered Graf to pay \$20,458,419.47 in restitution.

Graf, who until his arrest resided in Canyon Lake, California, was found guilty by a federal jury in Los Angeles in late 2005 of conspiracy, five counts of mail fraud, 10 counts of misappropriation in connection with a health care benefit program, six counts of money laundering and one count of obstruction of justice.

Prior to Graf's trial, his girlfriend pleaded guilty to misappropriation in connection with a health care benefit program and subscription to a false tax return in connection with the Employers Mutual scheme. Kari Hanson, a 46-year-old Canyon Lake resident, is scheduled to be sentenced by Judge Morrow on February 26, at which time she faces a maximum possible sentence of 23 years in prison. The third defendant charged in the case -- William Kokott, of Burbank, an owner of Employers Mutual, who at times called himself chairman of the company – died with charges pending.

Between the fall of 2000 and December 2001, the three defendants collected more than \$13 million in premiums purportedly to provide health care coverage under Employers Mutual's plans. Graf 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, Graf purported to operate Employers Mutual 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.

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.

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, IRS-Criminal Investigation Division, the United States Postal Inspection Service and the California Department of Insurance-Criminal Investigation Division, which received assistance from the California Department of Justice.

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