

Top Health-Insurance Scams

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They're back. They're slimy. And they want your money. They are health care hucksters.

In recent months, insurance regulators have been wrestling with what looks like a new wave in health-care scams, perpetrated mainly against the weakest of the flock: individuals and small-business owners.

Many of these frauds are similar to those that siphoned millions of dollars from unsuspecting consumers in the early 2000s. A few new nettlesome flavors have popped up, too--such as discount cards promising savings on doctors' visits and hospital stays (often marketed as real insurance) and human-resource service providers who also peddle sham health insurance.

"We've seen far too many [health-insurance fraud] cases recently," says Nevada's commissioner of insurance, Alice Molasky-Arman. In the past six months, six cases have landed in Nevada's insurance department--twice what bubbled up last year during the same time period.

The Coalition Against Fraud--a trade group comprised of major insurers, consumer groups and government agencies--has also seen more fraud cases spring up in the past year, after a drop-off for several years. "It's hard to say right now whether it's a tsunami revival of these frauds or a handful of isolated warning flares, but clearly these scams don't die easily," says James Quiggle, director of communications for the Washington-based organization.

In the last U.S. scam wave, between 2001 and 2003, four fake insurers left consumers high and dry with approximately \$85 million in unpaid medical bills, according to research by the Commonwealth Fund, a New York-based health-care research foundation and the Georgetown University Health Policy Institute. There's a reason perps pick on the little guy. Individuals and small-business-sponsored health insurance is governed by state regulations, not federal, which offer greater consumer protection. (The feds keep an eye on the large-group insurance market).

In many states, insurers can deny individuals with pre-existing medical conditions. And if they do offer coverage, it comes at steep rates. As for small businesses, many can't afford to offer much in the way of health benefits. Just 45% of companies with three to nine workers offer them, according to the 2007 annual survey from the Kaiser Family Foundation; overall, some 60% of companies now

offer health benefits, down from 69% in 2000. Meanwhile, the total number of uninsured Americans clocks in at roughly 47 million, or 16% of the U.S. population.

Choking health-care costs have individuals and entrepreneurs desperately scrambling for any relief--even into the waiting arms of scammers.

"Anytime you have an insurance need that is not met by the industry, it provides an arena for crooks to get involved," says Robert Brace, partner at Hollister & Brace, a Santa Barbara, Calif.-based law firm, who represented prosecutors against Employers Mutual, an unauthorized health-insurance company that defrauded thousands of health policyholders out of \$30 million in unpaid claims. Last February, James Graf, architect of the scam, was sentenced to 25 years in prison and ordered to pay \$20 million in restitution.

The Employers Mutual debacle (and others) led to a crackdown on fraudsters. State insurance departments launched consumer-awareness campaigns. This paid off for awhile, but now the bad guys are back. One big reason: "It's really easy to do," says Brace. "I could sell phony insurance."

Sham insurers can take many forms, including phony associations (think the Scuba Divers Association of Nebraska) or even third-party human-resource administrators. Some look and sound very legitimate, with real offices and Web sites, says Brace. They go fishing with below-market rates and target buyers who don't qualify for regular health insurance. Some hucksters might even pay a few claims to build trust. Eventually, though, they cut and run.

Herewith, some common scams and how to beat them:

Dreaded Disease Policies

In this time-worn scheme, an insurance provider claims to offer coverage for medical expenses related directly to a so-called "dreaded" disease like cancer, heart attacks, strokes or just an unfortunate accident. But when the bills come, the sham company is long gone with your premiums in its pocket.

There are some legitimate versions of these policies, too, but they come with plenty of loopholes. Limitations include: time frames with no option to renew, fixed dollar amounts and quirky caps on care. (Examples: Cancer treatments may only be covered in an in-patient setting, or the policy may provide no coverage for other illnesses related to a disease.)

Bottom line: With the right health insurance, you don't need these policies. If you don't have insurance and want to take a flier, make sure both agent and insurer are licensed in your state. Check with your state's insurance department.

Discount Cards

The promise of 15% off doctors' visits and hospital stays may sound like a bargain, but often these offers aren't real--unlike the crooks that market them. Some legitimate insurers offer discounts for "up to" a certain percentage, when in fact most of the time the savings are far more modest. These savings may also apply only to very specific treatments.

"In the last several years, there's been lots of activity in the discount-card area," says Mila Kofman, assistant research professor at Georgetown University's Health Policy Institute and the author of several studies on insurance fraud.

To sniff these scams out, vet the list of providers and find out if those doctors indeed honor discounts. Double-check the prices. Also check with your state's insurance department to see if there have been any past complaints with regard to those discounts.

Stacked Policies

Imagine a bunch of "dreaded disease" policies piled on top of each other. At best, the policies are mis-marketed; at worst, the insurer is a fraud.

Swiss cheese has nothing on some of these policies, though they may not be fraudulent per se. Exceptions abound, and you may end up paying higher premiums while missing out on basic coverage. Call your state regulator and read the fine print before getting suckered. Actually, don't bother--just avoid these plans altogether.

Faith-Based Plans

These programs collect attractively priced monthly premiums from members of a local or national congregation. (Most require members to uphold certain standards, such as no smoking, alcohol or premarital sex.) While plan members take it on faith that their medical bills will be covered, many won't be. Worse, there is little recourse to extract the money because programs tend not to be regulated.

Given the lack of transparency, it's hard to know which faith-based plans are legit and which aren't. Still, check with your state insurance department to see if consumers have filed complaints. Sometimes financial statements are available to the congregation, and some programs may even have a board of directors you can investigate.

Sadly, battling health-care scammers is a lot like trying to plug holes in a dike. But that doesn't mean you have to make it easy on them. "The bottom line is that health insurance is expensive for a reason, mostly because medical care is expensive," says Kofman. "Health insurance isn't going to be a lot cheaper depending on how you sell it."

In other words, if it smells too good to be true, it probably is.