DEPARTMENT OF Managed Health Care

STATE OF CALIFORNIA

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DMHC gains lifetime ban against insurance brokers from selling health coverage in California

(Sacramento) – The California Department of Managed Health Care (DMHC) has announced that it has shut down a phony labor union health coverage scheme that put hundreds of consumers at risk of losing coverage. On June 29, Raymond and Jean Palombo of Riverside, leaders of the Contractors and Merchants Association (CMA), were permanently barred by an administrative law judge from selling HMO and PPO products under the jurisdiction of the DMHC. The DMHC action alleged that the phony union collected premiums from its members, but did not pay them to Kaiser, the contracted health plan, jeopardizing the member's coverage.

"It is critical that we protect healthcare consumers from phony, Madoff-like scams that take their scarce dollars and leave them without insurance coverage," said Cindy Ehnes, Director of the DMHC. "We shut down this particular operation before Californians were severely harmed, and with Kaiser's support, got them into secure coverage. Our action sends the message that fraudulent health coverage rip-offs will not be tolerated by this Administration."

The lifetime ban is the culmination of a Cease and Desist Order issued by the DMHC earlier this year against the Palombos for operating an unlicensed health plan. The DMHC alleged that CMA conspired with a purported labor union over the past two years, soliciting almost 500 California members solely by offering guaranteed issue health coverage. CMA collected the premiums from its members, but did not pay premiums consistently to Kaiser, which jeopardized the continuation of coverage. The DMHC also found that the Palombos controlled similar operations in at least six other states, leaving consumers across the country with large unpaid medical bills and without health coverage.

Acting on a single 2007 consumer complaint from an enrollee objecting to the union membership requirement in order to obtain health coverage, the DMHC began an extensive

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investigation into CMA, finding that potential enrollees were solicited through the Internet and by licensed brokers. The license of an additional Southern California insurance broker who was responsible for selling the union contract to Kaiser received an eighteen-month suspension from selling products under the jurisdiction of the DMHC.

Earlier this year, the DMHC worked with Kaiser to convert the victimized consumers into individual policies at approximately the same rates they paid for their CMA small group policies. Kaiser also continued CMA coverage throughout the DMHC investigation, despite not receiving the premium payments for months at a time.

In 1999, a business operated by Raymond Palombo was shut down by the California Department of Corporations, precursor to the DMHC; however, the current DMHC action will permanently prevent him from being involved in any future California health plan venture. Palombo has also been the subject of similar orders in other states, including Texas, Georgia, Oklahoma, Nebraska, Florida, and North Carolina.

The legal action taken against the Palombos is part of the DMHC's ongoing efforts to protect consumers from fraudulent activity. Over the past few years, the DMHC has also been actively ordering unlicensed and fraudulent discount plans to cease operation or seek licensure, which ensures that discount health plans are selling a legitimate product. Earlier this month, the DMHC licensed its first medical discount health plan.

The California Department of Managed Health Care is the only stand-alone HMO watchdog agency in the nation, touching the lives of more than 21 million enrollees. The DMHC has assisted more than 800,000 Californians resolve their HMO problems through its Help Center, educates consumers on health care rights and responsibilities, and works closely with HMO plans to ensure a solvent and stable managed health care system.

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