



FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 21, 2008

Contact: Nick Velasquez
(213) 978-8340 (O)
(213) 507-4434 (M)

L.A. CITY ATTORNEY ROCKY DELGADILLO FILES CIVIL LAW ENFORCEMENT ACTION AGAINST HEALTH NET FOR ILLEGAL BUSINESS PRACTICES

***City's Chief Prosecutor Also Launches Criminal Probe into Firm's Illegal
Bonuses***

LOS ANGELES – Los Angeles City Attorney Rocky Delgadillo – who last week disclosed his office's ongoing investigation into the health insurance industry's schemes to maximize profits at the expense of patients – today announced he has filed a civil law enforcement action against Los Angeles-based Health Net, Inc., and two of its subsidiaries, for engaging in unlawful and deceptive business practices that lead to the denying or delaying of authorization of claims or canceling coverage after initially issuing a policy.

"Countless Californians who believe they have insurance actually have policies that aren't worth the paper they're printed on. At a patient's most vulnerable moment, the insurance company won't pay for care, or will cancel the policy altogether," said City Attorney Delgadillo. "Industry schemes to maximize profits at the expense of patients are unfair and unlawful, and they must be stopped."

The City Attorney also today announced that – based upon evidence developed in the course of his Health Net investigation, he's initiating a criminal investigation of individuals associated with Health Net's illegal bonus payment program for cancellations in violation of California's Knox-Keene Act (Health and Safety Code Sec. 1340 et seq.), and others who may have made false statements to the California Department of Managed Health Care regarding these payments, in violation of Penal Code Section 131.

The civil complaint, filed yesterday in Los Angeles Superior Court, alleges that the Health Net, Inc., Health Net of California, and Health Net Life Insurance Co. engaged in unlawful, unfair and fraudulent business practices and unfair, deceptive, untrue and misleading advertising in violation of California's Unfair Competition (Business and Professional Code 17200) and False Advertising (Business and Professions Code 17500) laws.

In the complaint, the City Attorney alleges that Health Net purposefully used false and misleading marketing in an effort to gain more members. Health Net collected applicants' medical history using intentionally misleading forms that called for the applicant to make educated medical judgments.

Submitted applications were generally accepted by Health Net without any meaningful review of the accuracy of responses, informed investigation into the medical history of applicants or confirmation that consumers understood the application.

Only after policy holders submitted claims for medical services did Health Net retro-actively conduct investigations into their medical history in order to find discrepancies in the application to allow for a delay in payment or cancelation of coverage.

"This practice of post-claims policy cancelation is unlawful, unfair and fraudulent," said Delgadillo.

Health Net went so far as to create a secret unit to cancel policies. The company routinely provided benchmarks – including goals for number of rescissions per year and dollars in claims denied – as well as economic incentives to individuals responsible for post-claims rescission, with bonus payments for reaching company goals. The division met or exceeded its goals every year, denying more than \$35 million in claims between 2003 and 2006.

The civil suit seeks to enjoin Health Net and its agents from engaging in the illegal activities outlined in the complaint and order Health Net to comply fully with the law. In addition, the suit asks the court to assess civil penalties of \$2,500 for each violation of the Unfair Competition Law and False Advertising Law as well as an additional \$2,500 penalty for each Unfair Competition violation that victimized any senior citizen or disabled person.

City Attorney Delgadillo also seeks to have wrongfully canceled policies reinstated and full restitution to all victims of the alleged practices by Health Net.

"This lawsuit is an important step towards holding health insurance companies accountable for their anti-patient practices," said California Medical Association President Richard Frankenstein, M.D. "Health insurance companies may say they are providing coverage, but time after time they do everything they can to avoid paying for health care for their policyholders."

Last week, City Attorney Delgadillo launched a first-of-its-kind, prosecutor-sponsored website – www.ProtectingTheInsured.org in order to collect information from consumers, doctors, and hospitals as part of the ongoing investigation into the potentially unlawful, fraudulent, and unfair activities of health insurance companies.

For more information, consumers are asked to visit www.ProtectingTheInsured.org or City Attorney Rocky Delgadillo's website at www.lacity.org/atty .

###