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8 Big Insurers Sue National Medical Enterprises

By PETER KERR

Eight leading insurance companies filed suit yesterday in Federal court charging National Medical Enterprises, one of the nation's largest operators of psychiatric hospitals, with a "massive" scheme to commit insurance fraud by admitting thousands of patients who did not need hospitalization and treating them at inflated prices.

The insurers, including Prudential and Travelers, contend that National Medical Enterprises systematically manipulated the diagnoses of patients to keep them in hospitals until their health insurance coverage was exhausted. The insurers, lawyers say, will seek hundreds of millions of dollars in damages.

The suit, filed in Washington, echoed allegations made against National Medical Enterprises in Congressional hearings last April and in State Senate hearings in Texas last year. But the suit represents the first action against the company by the nation's leading insurers and the first public charges that National Medical systematically committed insurance fraud in most of the 22 states in which it operates.

A lawyer for the insurance companies, Thomas Brunner, said the suit marked a substantial initiative on the part of the giant insurers to crack down on fraud as a way to help bring spiraling health-care costs under control.

"This suit clearly signals that these insurers intend to take an active role in ferreting out and halting insurance fraud," Mr. Brunner said. "Fraud is a significant factor in the upward pressure on health-care costs."

But in a written statement, National Medical said that the insurance companies were trying to avoid facing what it said was the real issue: a failure to pay for medically necessary psychiatric care. On July 20, National Medical filed its own suit against three of the insurers -- Massachusetts Mutual, Mutual of Omaha and Travelers -- saying they failed to pay claims.

"It is clearly a response, which we expected, to our earlier suit seeking \$45 million for their failure to pay for care," the statement said.

Between 1988 and 1991, the insurers' suit charges, National Medical and its psychiatric hospital division, Psychiatric Institutes of America, received more than \$490 million from the eight insurers. Although Mr. Brunner said he would not estimate how much of that money was obtained fraudulently, he said it amounted to hundreds of millions of dollars and that his clients were seeking triple damages.

Based on sworn testimony and documents obtained from National Medical, Mr. Brunner said, the insurers will be able to prove that the management ordered hospitals to disregard the medical needs of patients and admit them to tap their insurance benefits. The suit contends that the patients, including those who did not need hospitalization, were not released until their insurance coverage ran out.

A Defense Department study of private psychiatric hospital cases, released in April, found that in 64 percent of the cases, patients -- mostly relatives of military personnel -- should never have been admitted, were kept longer than necessary or had medical histories for which the hospitals could not justify treatment. National Medical has acknowledged that its staff in its Texas hospitals engaged in practices that appalled the company's management at its Santa Monica, Calif., headquarters. But the company has steadfastly denied that it committed insurance fraud or that problems existed in the other 21 states where it operates.

The other companies involved in the suit are Northwestern National Life, United of Omaha Life, Time Insurance, and Phoenix Home Life.

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