Department of Justice

U.S. Attorney's Office

Middle District of Tennessee

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Former CEO of Tennessee-based Telemarketing Company Pleads Guilty to Misrepresenting Health Insurance Plans

The former owner and chief executive officer of a Nashville, Tennessee-based telemarketing company pleaded guilty this morning to overseeing a fraudulent scheme in which limited-benefit health plans were sold to consumers as traditional health insurance, and to violating a federal court order that in 2010 froze his assets and shut down the company, announced U.S. Attorney Don Cochran of the Middle District of Tennessee and Acting Assistant Attorney General John P. Cronan of the Justice Department's Criminal Division.

Timothy Thomas, 55, of Brentwood, Tennessee, pleaded guilty to one count of mail fraud and one count of contempt before U.S. District Judge David Lawson, sitting by designation in the Middle District of Tennessee. He is scheduled to be sentenced by Judge Lawson on June 25, 2018. Thomas was charged in a 15-count indictment filed in October 2014.

According to admissions made as part of his plea, Thomas operated and controlled United Benefits of America (UBA) LLC, which was known at various times as United States Benefits (USB) and Health Care America. From at least 2007 to 2010, Thomas hired salespeople to sell over the phone so-called "association memberships" created by third-party companies such as International Association of Benefits and Consumer Driven Benefits of America. These memberships included bundled benefits, such as limited benefit health plans, prescription drug discount cards, accidental death and dismemberment benefits and lifestyle benefits, such as rental car discounts. Thomas targeted his sales to customers who had been denied traditional health insurance because of preexisting conditions, he admitted. The sales script used by Thomas attempted to portray the memberships as equal in quality to traditional health insurance, omitting the fact that limited benefit health plans left customers with the vast majority of the financial risk.

Thomas admitted that salespeople working for him made even more flagrant misrepresentations and omissions and used terms such as "deductibles" and "copays" to make customers believe they were buying traditional health insurance. Customer service employees and the Better Business Bureau routinely notified Thomas about customers complaining that they had been deceived into believing the plans were similar to traditional health insurance. Thomas oversaw a lax compliance program that was understaffed, with usually one employee monitoring up to 60 or 70 salespeople, and levied only occasional fines to salespersons who misrepresented or omitted key details of the plans. Despite knowing of the rampant misrepresentations and omissions, Thomas rarely fired salespeople for lying to customers, but routinely fired salespeople for low sales numbers, he admitted. When in 2009 a local news station, WSMV, ran a critical story on UBA featuring undercover footage of salespeople discussing misleading sales tactics, Thomas did not institute any meaningful changes in business practices. He merely changed the name of his company from UBA to USB and instructed a subordinate to sign a letter to the Better Business Bureau falsely claiming that the companies had nothing to do with each other.

When the Federal Trade Commission (FTC) filed a lawsuit against Thomas and his company in August 2010, a federal judge in the Middle District of Tennessee issued an order freezing Thomas's assets and placing his company into receivership. Immediately after being informed of the court's order, Thomas violated it by withdrawing more than $100,000 from a brokerage account and convincing a friend to deposit checks totaling $528,647, constituting proceeds of the scheme, into the friend's bank account, he admitted.

As part of his plea agreement, Thomas agreed to forfeit $1.5 million, representing the amount he personally gained through the fraudulent scheme.

The case was investigated by the FBI, the U.S. Postal Inspection Service, the Department of Labor's Office of Inspector General and the Department of Labor's Employee Benefits Security Administration. The FTC and Tennessee Division of Insurance provided substantial assistance. Assistant U.S. Attorney Cecil VanDevender of the Middle District of Tennessee and Trial Attorney William E. Johnston of the Criminal Division's Fraud Section are prosecuting the case.