



Supreme Court Sides With Employee In Benefits Denial Claim

Insights

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June 19, 2008 -- The Supreme Court confirmed that a conflict of interest exists where dual-role" employee benefit plan administrators have the authority to both evaluate and pay claims. More importantly, the Supreme Court also clarified how the conflict of interest should be weighed on review of a plan administrator's discretionary benefit denial. *MetLife v. Glenn*.

Prior to today's decision, the U.S. Courts of Appeals had been divided on the issue of whether a conflict of interest even existed to be examined. While six Circuit Courts (the 3rd, 4th, 5th, 9th, 10th, and 11th Circuits) all agreed that such an administrative role required a conflict of interest to be taken into account on judicial review of a benefit determination, four others (the 1st, 2nd, 7th, and 8th Circuits) held that the mere fact that a plan administrator had dual roles did not trigger stricter review. And even those courts that agreed a conflict of interest existed were divided on how the conflict of interest should be weighed when a plan administrator's denial of benefits was reviewed. Today the Supreme Court resolved the conflicting approaches and, while bringing much-needed clarity to the issue, opened the door for employees who wish to challenge these decisions.

Background

Due to their high level of subjectivity, the denial of welfare benefit claims, such as short-term and long-term disability, is often a complicated decision. For example, in order to receive short-term disability benefits (two years or less), the requisite standard usually requires that an individual be unable to perform the tasks of their specific job. On the other hand, in order to receive long-term disability benefits after the two-year period expires, insurers often require that an individual be unable to perform *any* job. More than one physician is usually employed to make the determination of whether an individual is disabled. Not surprisingly, their opinions frequently differ. The result is that the individuals whose claims are not granted are left with the feeling that they were wrongly denied; often they file suit in an attempt to overturn the denial and receive benefits.

A prior Supreme Court decision in *Firestone Tire & Rubber Co. v. Bruch* established an arbitrary and capricious" standard of review for benefit determinations where the terms of the plan grant the plan administrator discretionary authority to interpret the plan and to determine benefits. Under that standard of review, an administrator's exercise of judgment is given deference and will not be disturbed if it is reasonable. But several lower courts found that the fact that a claim administrator also pays plan benefits, standing alone, constitutes a conflict of interest that should be weighed in reviewing the benefit determination. In these cases, the arbitrary and capricious standard of review

continues to apply, but courts give less deference if a conflict exists. Because circuit courts differed on whether this should be a factor, the Supreme Court stepped in.

The Facts of the Case

Wanda Glenn worked for Sears and participated in Sears' disability plan, which was administered and insured by MetLife. MetLife approved Glenn's claim for short-term disability benefits after she was diagnosed with a heart condition. After paying short-term benefits for the maximum term, MetLife concluded that the medical records did not support her claim of total disability and terminated her benefits. She filed suit against MetLife and the plan challenging its determination that she was not entitled to long-term disability benefits. Glenn made her claim under a section of the Employee Retirement Income Security Act (ERISA) that authorizes a plan participant to bring a cause of action to recover benefits due to him under the terms of his plan."

The U.S. Court of Appeals for the 6th Circuit reinstated her benefits, concluding that MetLife was operating under an apparent conflict of interest because it was authorized both to decide whether an employee is eligible for benefits and to pay those benefits. The 6th Circuit, following a majority of Courts of Appeals, applied an arbitrary and capricious abuse of discretion" review, tempered by the particular factors warranting increased scrutiny, in reviewing MetLife's denial of benefits. MetLife asked the Supreme Court to overturn that decision and rule in its favor.

The Court's Ruling

The Supreme Court relied heavily on its *Firestone* opinion in both concluding that a conflict of interest existed and in clarifying how the conflict should be weighed by a court reviewing a discretionary benefit denial by a plan administrator.

As an initial matter, the Supreme Court held that there is clearly a conflict where it is the employer that both funds the plan and evaluates the claims. The Court reasoned that every dollar provided in benefits is a dollar spent by the employer; and every dollar saved is a dollar in the employer's pocket." In stating that a conflict also exists where the plan administrator is an insurance company, the Court said:

1. The employer's own conflict may extend to its selection of an insurance company to administer its plan. This is because an employer choosing an insurance company may be more interested in an insurance company with low rates than in one with accurate claims processing.
2. ERISA imposes higher-than-marketplace" quality standards on insurers: requiring a plan administrator to discharge its duties with respect to discretionary claims processing solely in the interests of the participants and beneficiaries" of the plan, emphasizing the importance of accurate claims processing by requiring administrators to provide a full and fair review" of claim denials, and supplementing marketplace and regulatory controls with judicial review of individual claim denials.
3. A legal rule that treats insurance company administrators and employers alike in respect to the *existence of a conflict can nonetheless take account of different circumstances by treating the*

existence of a conflict can nonetheless take account of different circumstances by treating the circumstances as diminishing the conflict's *significance* or *severity* in individual cases.

Rather than delineating a detailed set of instructions, the Court cited *Firestone*, stating that a conflict should be weighed as a factor in determining whether there is an abuse of discretion."

In declining to adopt a rule that would cause courts to review discretionary benefit denials by plan administrators without deference, the Court found it unnecessary to set forth any special procedural or evidentiary rules in regards to the evaluator/payor conflict. In making such a determination, the Court stated that judges reviewing a benefit denial's lawfulness may take account of several different considerations, with conflicts of interest being one. This approach of requiring judges to take into account such a myriad of factors is also found in trust law and administrative law.

What This Means For Employers

The impact of this decision on most employers will likely be limited to the potential of increased premiums as a result of prolonged litigation over benefit determinations. However, employers that have self-funded plans which are administered by a third-party may want to take preventive action. Typically, agreements with third-party administrators provide that the employer retains liability in the event of a review of the benefit determination. It is clear now that this retention of liability can create a conflict of interest that will be scrutinized by a court in the event of a suit.

Many third-party administrators provide employers with the option of contracting away their fiduciary liability to the third-party. But like any other insurance coverage, this option has a price. Whether such coverage is appropriate for an employer depends on individual circumstances.

For more information, contact your regular Fisher Phillips lawyer, any attorney in our Employee Benefits Practice Group, or visit our website at.

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