

Supreme Court Upholds Plan's Contractual Deadline to File Lawsuits

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On December 16, 2013, the US Supreme Court settled a split among the US Circuit Courts of Appeals and unanimously ruled in *Heimeshoff v. Hartford Life & Accident Insurance Co.*, No. 12-729 (US 12-16-13), that a plan provision which limits the time a participant can file a suit for benefit claims is enforceable under ERISA, so long as the time period is reasonable and even if the time limit begins to run before the plan has issued its final determination.

ERISA Claims Procedures

Under ERISA Section 503, an employee benefit plan must provide certain required procedures for reviewing benefit claims. The first step of the process requires the plan to either approve or deny a participant's claim for benefits within 90 days after the participant files a claim for benefits (a shorter period in the case of disability and urgent medical claims). If a plan issues a denial of benefits, the participant may appeal within a specified time period. Upon appeal, should the plan issue a final denial of benefits, the participant may then file a legal action in federal court under ERISA Section 502(a)(1)(B) to challenge the denial. However, ERISA Section 502(a)(1)(B) does not provide a time limit within which such action must be brought, nor does it provide when such time limit commences.

In a previous Supreme Court case, *North Star Steel Co. v. Thomas*, 515 US 29 (1995), the Court explained that where a federal statute fails to provide any limitation period, the Court's longstanding and settled practice is to borrow the limitations period from the most nearly analogous state statute. For employee benefit plans, the state

statute that governs written contracts will furnish the needed limitation period. Thus, employee benefit plans may be subject to different limitation periods depending on the applicable state of residence.

Rather than leaving it up to the applicable state statute, many plan documents contain their own plan-specific contractual limitation provision requiring participants to bring an action for benefit claims within a specified time period. For example, a plan may have a limitation period that requires a participant to file a claim in federal court within three years from the date the claim first accrues. The potential problem for participants is that, if the plan's internal review process takes two years to complete, the participant only has one year to file suit in federal court. The US Circuit Courts have been split on this issue as to whether a plan may specify a contractual limitations period that starts to run before the cause of action accrues (*i.e.*, before the plan's internal review process has been completed).

A New Supreme Court Ruling

In the recent *Heimeshoff* case, Julie Heimeshoff, an employee of Wal-Mart Stores, Inc. and a participant in Wal-Mart's disability plan, submitted a claim for disability benefits with the plan's administrator, Hartford Life & Accident Insurance Company, after becoming ill. Hartford initially denied Ms. Heimeshoff's claim citing failure to provide satisfactory "proof of loss." Ms. Heimeshoff ultimately provided the additional documentation, but it was deemed unsatisfactory by Hartford and her claim was denied. Upon appeal, the denial was upheld and as a result, the plan issued a final

denial of benefits. Having exhausted the internal review process under ERISA Section 503, Ms. Heimeshoff filed suit in federal court, within three years of the date of the final denial, but more than three years from the date of proof of loss.

The plan document provided that any lawsuit to recover benefits under ERISA's judicial review provision must be filed within three years from the date "proof of loss" is due. Hartford and Wal-Mart moved to dismiss Ms. Heimeshoff's claim on the grounds that it was filed more than three years after the proof of loss date. Ms. Heimeshoff argued that the plan's three-year limitation period should start to run on the date the plan issued its final denial of benefits, because participants are required to complete the plan's internal review process. The District Court granted the motion to dismiss. On appeal, the Second Circuit upheld the decision concluding that "it did not offend ERISA for the limitations period to commence before the plaintiff could file suit under 502(a)(1)(B)."

The Court relied on a prior Supreme Court decision from 1947, *Order of United Commercial Travelers of America v. Wolfe*, 331 US 586 (1947), 67 S. Ct. 1355, which held that a "contractual limitations provision is enforceable so long as the limitations period is of reasonable length and there is no controlling statute to the contrary" in upholding the District Court and Court of Appeals decisions. The Court noted that the plan's three-year limitation was quite common and reasonable in length, even in Ms. Heimeshoff's case where the internal review process took longer than usual and only left her with approximately one year in which to file suit.

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The Court also found that there was no controlling statute that prevented the plan's limitation provision from taking effect. Importantly, in reaching its decision, the Court emphasized the well-respected principle of enforcing plan terms as written in the context of an ERISA plan.

Ms. Heimeshoff argued that enforcement of the plan's contractual limitation period would undermine ERISA's required internal review process as participants would unwisely rush through the internal review process in order to preserve additional time for filing suit, and employers would attempt to prevent judicial review by delaying the plan's claim process. The

Court rejected both of these arguments. The Court noted that to the extent participants fail to develop evidence during the internal review process, they risk forfeiting the use of that evidence in federal court. Likewise, employers have an incentive to proceed in an expeditious manner as the penalty for not meeting the deadlines in ERISA Section 503 is immediate access to judicial review for the participant.

Recommendations for 401(k) Plan Sponsors

Even though a disability plan was at issue in *Heimeshoff*, the ruling applies to all ERISA plans, including 401(k) plans. Because the focus of the Court's opinion is on enforcement of plan

terms as written in the plan document, plan sponsors of 401(k) plans should take the time to review the provisions in their plan documents relating to the claims process and the limitation period in which a participant may bring a legal action. Not only should the date the limitation period commences be examined but so should the length of the limitation period to determine if it is "reasonable." If the plan document does not have a limitations period, the plan sponsor may want to consider adding a three-year period or another reasonable contractual limitation period. ❖

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