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Supreme Court Approves Contractual Suit Limitations Provision in ERISA Matters

By Jerilyn Jacobs

One of the initial questions that arises when looking at a newly filed lawsuit is, "Is it timely?" Last month, the United States Supreme Court issued an opinion that answered that question for certain lawsuits for benefits filed under the Employee Retirement Income Security Act of 1974 ("ERISA"). Specifically, the Court answered the question of whether an ERISA plan could contain a provision that sets the deadline by which an individual must file a lawsuit for claimed benefits under the plan, but also whether the contract can specify that the deadline begins to run before the internal administrative review process required by ERISA is completed. In a unanimous decision, the Court answered that question in the affirmative.

The case, [*Heimeshoff v. Hartford Life Insurance*](#), involved Julie Heimeshoff, who, following a diagnosis of lupus and fibromyalgia, filed a claim for long-term disability benefits with Hartford Life & Accident Insurance Co., the administrator of her employer's group long term disability plan (the "Plan"). If a plan, such as the Plan in *Heimeshoff*, is subject to ERISA, then an individual seeking benefits must first file an internal administrative claim. The individual seeking benefits typically files a "proof of loss" early in the administrative process. Once that internal administrative process is exhausted, a plan participant who believes she is still owed benefits can file a federal lawsuit under ERISA section 502(a)(1)(B) to obtain judicial

review of the denial of benefits.

However, ERISA does not provide any deadline by which these federal lawsuits must be filed, and in that absence, the plans often write a deadline into the contractual language. Hartford's Plan for Wal-Mart required that any lawsuit be filed within three years after the proof of loss was due. Thus, the limitations period began to run before she could even file a lawsuit.

Hartford initially denied Heimeshoff's claim in November 2005, as it concluded that Heimeshoff had failed to provide satisfactory proof of loss after her treating rheumatologist failed to respond to Hartford's request for additional information. Hartford instructed Heimeshoff that it would consider an appeal within 180 days. Heimeshoff requested an extension of that appeal deadline, which Hartford granted. After more medical information was submitted during the appeal process and the two sides engaged in an extended back-and-forth, Hartford met all of its regulatory deadlines and issued its final denial on November 26, 2007.

On November 18, 2010, nearly three years after the final denial but well after the three years after the proof of loss was due (2005), Heimeshoff filed a lawsuit in federal district court for judicial review pursuant to §502(a)(1)(B) of ERISA. Hartford and Heimeshoff's employer moved to dismiss the lawsuit on the grounds that Heimeshoff's complaint was barred by the Plan's three-year limitations provision for any lawsuits for benefits. The district court granted the motion and dismissed the case. The Second Circuit Court of Appeals affirmed.

On appeal to the United States Supreme Court, Justice Thomas, writing for the unanimous court, held the Plan's provision enforceable. In making this holding, the Court first looked to see whether a controlling statute existed that governed the time by which the ERISA lawsuit in question could be filed and, if no such statute existed, looked to whether the contractual period was reasonable in length.

Heimeshoff argued that the limitations provision undermined ERISA's two-tiered remedial scheme for internal review (internal administrative review and judicial review by a federal court) because participants will be incentivized to shortchange their own rights during the internal review process in order to gain additional time by which to seek judicial review. Heimeshoff argued that ERISA and its regulations require that participants exhaust internal review remedies prior to filing a lawsuit and, accordingly, an employee's cause of action under ERISA does not accrue until the plan issues its final denial. Heimeshoff also argued that the Plan's limitation provision would run afoul of the general rule that statutes of limitation commence upon accrual of the cause of action because it

would "allow the clock to run" before an individual was even able to file a lawsuit.

The Supreme Court rejected these contentions and found that the Plan's provision did not conflict with ERISA or general rules regarding statute of limitations. Justice Thomas noted that statute of limitations do not "inexorably" begin upon accrual. He further noted it was "critical" that the parties had agreed by contract to commence the limitations period at a particular time and that, by general principle of law, a contract may validly limit the time for bringing an action on that contract, so long as that shorter period itself is reasonable.

The Supreme Court found unpersuasive Heimeshoff's argument that plan participants would deliberately shortchange their rights under the internal review process in order to go to federal court. The Court noted that many, if not most, ERISA-related plans are reviewed by federal courts under an "abuse of discretion" standard, and a court's review is typically limited to the administrative record. Thus, plan participants continue to have an interest in fully developing their claims during the internal review process so that a court has a full record to examine. The Court also noted that most ERISA administrative reviews are regulated so as to reach a final decision within one year, giving the participant two years to file a lawsuit under the three-year limit imposed by the Plan at issue.

The Supreme Court also cautioned that if plan administrators attempt to take advantage of these situations by delaying resolution of claims, an employee could assert bad faith as an affirmative defense to the running of the statute of limitations. Additionally, concerns about being "shortchanged" at the internal review level would be allayed by the fact that, if a Plan's administrator fails to meet its own deadlines, the participant is deemed to have exhausted its administrative remedies and can bring suit.

This opinion provides finality on the issue and may provide some welcome news for those employers and plan administrators in federal circuits with case law overturned by this decision. Companies may want to work with their long-term disability plan providers and/or their legal counsel to determine whether it would be in their best interests to adopt such a suit limitation provision that begins to accrue when the proof of loss is due or when a final determination is made. This decision also can serve as a reminder to businesses of the importance of its plan administrators in meeting their own deadlines, as failure to meet a regulatory deadline provides the plan participant with an opportunity to bring suit.

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