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Typical Administrative Procedures Lead to Unfavorable Court Decision

It is not uncommon for employers to place the burden on employees of informing the employer when a dependent becomes ineligible for a benefit. Plan documents and SPDs should provide notice that if these rules are not followed, coverage is not in effect, even if premiums are deducted.

Recent cases indicate that employers should take a more proactive role in ensuring eligibility, particularly when elections roll over from year-to-year. An Arkansas court recently considered a case where an employee properly enrolled her child in optional life and AD&D insurance in 2013 but then failed to disenroll the child from coverage in 2015 when the child reached the limiting age. When the child died and the employee filed a claim, the insurer denied the claim due to his age and the employer refunded the premiums that had been paid while ineligible. The employee claimed she did not know about the age cutoff and that the employer was aware of the child's age due to information provided for medical coverage, yet the employer continued to deduct premiums from her pay.

The court found that although the plan and SPD were clear, both the employer and insurer breached their fiduciary duty to the employee due to "flawed administrative procedures" which harmed the employee. The court noted that age screening would have been a simple process to add, especially when the employer already had the child's birthdate in its administrative records. The court also found that the employee bore some responsibility as the plan and SPD were clear on this point. However, because these documents were long, and perhaps also because during the annual enrollment process the employee was not required affirmatively to confirm that the dependent remained eligible, the court awarded make-whole relief to the employee in the form of a surcharge equal to the amount of the insurance proceeds, as well as attorneys' fees, costs and interest.

It is also important to point out that the insurance policy in this case was clear that the child was not eligible. Therefore, this claim is "extra-contractual" and would be the sole burden of the employer to pay. Further, because the employer was responsible for enrollment (as is the typical situation for most employers), the employer would not have a negligence or indemnification claim against the insurer.

This case generates a number of key takeaways –

- Employers should review their administrative process for ensuring enrolled dependents are eligible, even if the policy and SPD place the burden on the employee.
- During annual enrollment, employees should be required to certify dependent eligibility for enrolled benefits.

- Most employers collect dependent birthdates for medical coverage. This information should be shared within the “enrollment system” to verify eligibility for other coverages, such as life and AD&D.