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Court Requires Employer to Pay Dependent Life Insurance Benefits

A recent United States District Court opinion highlights the importance of providing summary plan descriptions and certificates of coverage for insured benefits.

Discussion

In this case, the employee enrolled her lawful spouse in dependent life insurance under the employer's group life insurance policy for $10,000 in basic dependent life insurance coverage and $50,000 dependent supplemental coverage. At some point thereafter the employee and her spouse divorced, and shortly after the divorce, the employee's spouse died.

During enrollment in the dependent life insurance coverage, the employee was provided enrollment forms and was advised that an employee could not lose the insurance for life changes after the two year waiting period, and was never informed about divorce affecting the coverage. Further, the employee was never provided with an SPD or a certificate of insurance.

The insurer denied the claim because the employee divorced her spouse prior to death, and the insurance policy provided that the employee had to be married at the time of death to receive life insurance benefits for her spouse. The court upheld the benefit denial based on the terms of the policy. However, the employee also filed a breach of fiduciary claim against her employer, arguing that her employer breached its fiduciary duty by failing to provide to her a summary plan description and/or certificate of insurance. Therefore, she was never aware of her conversion rights with respect to her ex-spouse, and that she should be entitled to "make-whole, monetary relief" from her employer.

The court agreed awarding her $60,000, the full amount of the life insurance benefit. The court reasoned that the employer's failure to provide an SPD caused the employee harm because she had no notice that her spouse would cease to be a covered dependent if they divorced and because she had no notice of her conversion rights with respect to her ex-spouse upon divorce.

Key Takeaways

Because the court upheld the denial of benefits with respect to the insurer, the employer was ordered to pay the benefit itself as a breach of fiduciary duty. This highlights the importance of timely providing an SPD and/or certificate of coverage for insured benefits. If the policy provides no coverage for a particular occurrence, but the employer is determined to be at fault, the employer is basically

self-insuring that portion of the benefit, which is what happened in the current case.

In addition to the importance of providing an SPD, it is also important to provide a correct SPD. This is because if the SPD provides for a benefit that is not provided in the insurance policy, the employer will also be self-insuring that portion of the benefit as well. For example, it is typical for dependent life insurance policies to have an age limit after which coverage will not be provided, such as age 70. If the SPD does not include such age limitation, and a spouse age 70 or older dies (in that example), absent other intervening factors, the employer will likely be held to pay for that benefit out of its general assets. Therefore, it is important to timely provide an SPD for all insured benefits, and to determine that such SPD is correctly drafted.