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U.S. Supreme Court Rules Plan Terms Trump Equitable Defenses

In its *US Airways v. McCutchen* decision on April 16th, the U.S. Supreme Court overturned the U.S. Court of Appeals for the Third Circuit and ruled equitable defenses (such as unjust enrichment) do not supersede an ERISA plan's terms.

Background

McCutchen was a participant in the US Airways self-funded medical plan and had been injured in a car accident. Although the plan initially paid $66,866 in medical expenses for McCutchen, it included a provision that entitled US Airways to reimbursement if McCutchen recovered money from a third party. McCutchen subsequently settled his case for $110,000, although his total damages were estimated to be more than $1 million. After paying his attorney a 40 percent contingency fee, McCutchen retained $66,000. US Airways subsequently demanded reimbursement of the $66,866 it had paid for McCutchen's medical expenses. When McCutchen refused to comply, US Airways sued McCutchen under Section 502(a)(3) of ERISA in order to obtain "appropriate equitable relief" to enforce the plan's reimbursement provision. McCutchen raised two equitable defenses and claimed that, absent any over-recovery on his part, US Airways' right to reimbursement did not apply and, alternatively, that US Airways should be required to contribute its fair share to the costs McCutchen incurred in obtaining any recovery (i.e., his attorney's 40 percent contingency fee). The district court granted summary judgment to US Airways, which was later vacated by the Third Circuit.

The Supreme Court held that because the reimbursement terms of the plan were clear, they governed and US Airways was entitled to recover the funds from McCutchen. However, because the plan was silent with respect to attorney fees, the Court ruled that US Airways would have to contribute an allocable share of the attorney's 40 percent contingency fee.

What Does This Mean for Plan Sponsors of Self-Insured Medical Plans?

This decision is good news for plan sponsors of self-insured medical plans. The decision reaffirms that where the plan terms are clear, they will govern. As the Court described in its opinion, "neither general unjust enrichment principles nor specific doctrines reflecting those principles?- such as double-recovery or common fund rules" can override the terms of the plan.

Plan sponsors of self-insured medical plans should review their plan documents, specifically the reimbursement provisions (that is, the subrogation provisions), to ensure they are clearly drafted. If not clear, plan sponsors should consider amending the plan so that it specifies whether the plan is obligated to share in costs incurred by a participant when pursuing recovery of a claim against a third party.

If you have any questions about whether your plan's reimbursement provisions should be amended to clarify your intent with respect to who shares in the costs of recovery, please contact a member of Day Pitney's Employee Benefits practice group.