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U.S. Supreme Court Holds that ERISA Plan Can Enforce Contractual Limitations Provision to Bar Benefit Claim Lawsuit

By Deidre A. Grossman, Susan Katz Hoffman and Dan Srsic

The U.S. Supreme Court in *Heimeshoff v. Hartford Life & Accident Insurance Co. et al.* resolved a split among the circuits when it held that a contractual limitations clause in an ERISA-governed long-term disability benefits plan is enforceable even where it causes the limitations period on a claim for benefits to commence before the participant's cause of action accrues. In this case, the plan-based limitations period in which to file a disability claim lawsuit under ERISA Section 502(a)(1)(B) started to run when "proof of loss" was due under the plan, even though the participant's cause of action did not accrue, and a lawsuit could not be filed, until the plan's internal claim review process had been exhausted. Citing ERISA's important policy of enforcing plan terms as written, the Court held that the clause was enforceable.

The Legal Framework

ERISA Section 502(a)(1)(B) allows a participant or beneficiary to commence an action "to recover benefits due to him under the terms of his plan, to enforce his rights under the terms of the plan, or to clarify his rights to future benefits under the terms of the plan."¹ As the statute suggests, and the *Heimeshoff* Court recognized,² claims for benefits are "bound up" with the terms of the governing plan document, which must be enforced as written.

ERISA does not codify a statute of limitations for actions to recover benefits. Courts have, therefore, looked to analogous state law for the length of the applicable limitations period. When determining the point at which the limitations period commences, courts have applied the federal discovery rule, and held that the limitations period starts "when there has been a repudiation by the fiduciary that is clear and made known to the beneficiary."³ Typically, this is triggered when appeals of denial of benefits are completed. Under the "clear repudiation" rule, however, the limitations period may begin to run earlier, even before the plaintiff has applied for benefits.

Prior to *Heimeshoff*, federal courts enforced "reasonable" contractual provisions in plan documents shortening the limitations period for benefit claims from what the most analogous state law would have provided. The key issue raised by *Heimeshoff* was whether such a contractual

1 29 U.S.C. § 1132(a)(1)(B).

2 *Heimeshoff v. Hartford Life Accident Ins. Co.*, No. 12-729, slip op. at 8 (U.S. Dec. 16, 2013).

3 *Carey v. Int'l Bhd. of Elec. Workers Local 373 Pension Plan*, 201 F.3d 44, 47 (2d Cir. 1999).

provision could also cause the limitations period to start before the claimant had exhausted the plan's internal claim review procedure. Because plaintiffs must exhaust a plan's administrative remedies before filing a court action to recover benefits, enforcing contractual provisions such as the one in *Heimeshoff* results in a limitations period starting to run before the plaintiff's cause of action accrues, rather than after receipt of a final decision on the claim.

Factual Background

The plaintiff stopped working on June 8, 2005 due to her alleged diagnosis of lupus and fibromyalgia, and symptoms of extreme fatigue, pain and lack of concentration. On August 22, 2005, she filed a claim with Hartford Life and Accident Insurance (Hartford), the plan's administrator for long-term disability benefits. When the plaintiff's treating physician failed to supply additional information in response to Hartford's requests, Hartford denied the claim, subject to re-opening it if the plaintiff came forward with the requested information. In July and October 2006, the plaintiff submitted additional medical evidence in support of her claim. Hartford denied the claim in November 2006, finding that plaintiff was able to perform her sedentary job functions.

In May 2007, the plaintiff requested an extension of the appeal deadline and submitted her appeal to Hartford with other medical documentation on September 26, 2007. That appeal was finally denied on November 26, 2007.

On November 18, 2010, the plaintiff filed suit, seeking review of her denied claim for disability benefits under ERISA Section 502(a)(1)(B). The defendants moved to dismiss the claim on the grounds that it was time-barred under the plan's contractual limitations clause, which stated: "Legal action cannot be taken against The Hartford . . . [more than] 3 years after the time written proof of loss is required to be furnished according to the terms of the policy."⁴ If the three-year limitations period were counted from when Hartford issued its final denial on November 26, 2007, the plaintiff's claim would have been timely.

Procedural History

The district court granted the administrator's motion to dismiss, finding the claim to be untimely under the plan's clear limitations period. On appeal, the U.S. Court of Appeals for the Second Circuit affirmed, finding that "it did not offend ERISA for the limitations period to commence before the plaintiff could file suit under Section 502(a)(1)(B)."⁵

The U.S. Supreme Court agreed to resolve a circuit split on the following question: "When should a statute of limitations accrue for judicial review of an ERISA disability adverse benefit determination?"

The Decision

On December 16, 2013, Justice Thomas delivered a unanimous opinion holding the provision in question to be enforceable, starting the limitations period before the plaintiff had fully exhausted her administrative remedies and received a final claim denial. In so ruling, the Court emphasized the importance of enforcing the written terms of an ERISA plan, citing its several recent decisions endorsing this rule.

The Court acknowledged that, in its prior decisions, it had often construed statutes of limitations to commence no earlier than when the plaintiff was permitted to file suit—but only when dealing with a statutory statute of limitations, not a contractual limitations period. It recognized, however, that "statutes of limitations do not inexorably commence upon accrual."⁶ Additionally, in the case before it, "the parties [had] agreed by contract to commence the limitations at a particular time."⁷ Relying on *Order of United Commercial Travelers of America v. Wolfe*, 331 U.S. 586, 608 (1947), the Court concluded that such a clause is enforceable. *Wolfe* allows parties to a contract to choose a shorter limitations period than would otherwise apply under a general statute of limitations, provided the limitations period is reasonable and there is no controlling statute to the contrary. The Court in *Heimeshoff* held that "[t]he *Wolfe* rule necessarily allows parties to agree not only to the length of a limitations period but also to its commencement."⁸

⁴ *Heimeshoff*, slip op. at 3 (brackets in original).

⁵ *Id.* at 4.

⁶ *Id.* at 6.

⁷ *Id.*

⁸ *Id.* at 7.

The Court held that the clause in the Hartford policy met both conditions of the *Wolfe* rule. Because the three-year clause at issue in the *Heimeshoff* case allowed claimants ample time to bring suit following conclusion of a plan's internal review process (which lasts, in most cases, "about one year"), the Court found it was reasonable.

The Court held also that there was no "controlling statute" contravening the clause. The Court rejected the plaintiff's argument that contractual clauses such as the one at issue will undermine ERISA's two-tiered remedial scheme, whereby exhaustion of administrative remedies precedes a federal court action. Participants will still be incentivized to employ plans' internal review mechanisms, the Court opined, in order to develop an evidentiary record in anticipation of judicial review. And such clauses will not "endanger judicial review" of benefit claim denials, the Court reasoned, because ERISA regulations governing claim review procedures contain safeguards that would protect claimants from purposeful delays in claims decision-making. The Court noted that "the vast majority of states require certain insurance policies to include 3-year limitations periods that run from the date proof of loss is due[,] yet there was little evidence that such provisions had "thwarted judicial review."⁹ Finally, according to the decision, courts can also apply equitable doctrines, e.g., tolling, in the "rare cases" where participants demonstrate extraordinary circumstances in the internal review process that precluded them from timely filing legal action.¹⁰

The Court easily rejected the plaintiff's contention that the limitations period should be tolled during the course of the internal review process, stating that the ERISA regulations require tolling of any statute of limitations only during any voluntary levels of appeal (in group health plans), but do not otherwise address plan-based statutes of limitations.

The Court left unanswered the question of when the statute of limitations will begin to run when benefits are terminated years after an initial "proof of loss" is required. While many employee benefits call for a one-time claim decision, others, like the disability benefits at issue in this case, require ongoing administration and may be terminated after years of payments if the participant is no longer eligible. Courts may find that a limitations period based upon "proof of loss" is inapplicable by its own terms if the language does not apply to the circumstances under which benefits were denied. Plan sponsors should, therefore, take care to ensure that a contractual limitations period applies in all situations that can be reasonably anticipated.

Conclusion

In light of *Heimeshoff*, employers will want to examine their existing contractual limitations provisions in their plan documents or to consider inclusion of such a provision in the first instance. Although *Heimeshoff* arose in the context of a disability plan, the decision does not appear limited to that context. Contractual limitations provisions are particularly valuable to shorten limitations periods in states where the period would otherwise be lengthy. By allowing plans to specify when the limitations period commences, *Heimeshoff* can be read to allow that period to be shortened even further (provided the period is reasonable) through the selection of events or dates that precede claim exhaustion. As noted above, selecting the trigger date for commencement of the limitations period and ensuring that the provision can be applied to any denial of benefit situation must be done carefully.

[Deidre A. Grossman](#), Co-chair of Littler's Employee Benefits Litigation Practice Group, is a Shareholder in the New York City office; [Susan Katz Hoffman](#), fellow Co-chair of the Employee Benefits Litigation Practice Group, is a Shareholder in the Philadelphia office; and [Daniel Srsic](#) is a Shareholder in the Columbus office. If you would like further information, please contact your Littler attorney at 1.888.Littler, info@littler.com, or Ms. Grossman at dgrossman@littler.com, Ms. Hoffman at shoffman@littler.com, or Mr. Srsic at dsrsic@littler.com.

9 *Id.* at 12-13.

10 *Id.* at 14-15.