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LEGISLATIVE UPDATE

Eye on Washington

U.S. SUPREME COURT UPHOLDS PLAN-IMPOSED TIME LIMITS FOR ERISA BENEFITS CLAIMS

Many plan sponsors opt to include a "statute of limitations" provision in their ERISA plan documents that requires plan participants to file benefits claims with the plan within a specified period of time. Such limitation periods typically start to run upon the occurrence of an event or specified date (e.g., "proof of loss," or date on which a plan administrator issues a final determination, etc.), and may run anywhere from one to three years. A recent decision by the U.S. Supreme Court, *Heimeshoff v Hartford Life & Accident Life Ins. Co.,* No. 12-729, (Dec. 16, 2013), confirmed that ERISA plans may include and enforce such time limits on participants' and beneficiaries' rights to file benefits claims with the plan. The Court further ruled that such limitation periods are enforceable, even though the time period starts to run before the claimant has the right to sue on the claim in federal court.

Background

ERISA regulates employee benefits claims, including retirement, health, and disability benefits. Under Section 503 of ERISA, plan administrators are required to adopt an internal review process to administer benefits claims filed by participants and beneficiaries (together referred to herein as "participants") with the plan. During the first stage of the review process, a plan must generally make a decision on whether to approve or deny a participant's claim for benefits within 90 days (shorter periods of time apply to disability and urgent-care medical claims). Following an initial denial of benefits, a plan participant may then appeal the initial determination under the internal review process within a specified period of time. If a participant remains dissatisfied with the outcome of the internal review process, he or she may file a claim in federal court against the plan fiduciary, under ERISA §502(a)(1)(B), to recover any benefits due. However, appeals courts have generally required that a participant may only bring such a claim after exhausting the plan's internal review process. Thus, a participant's cause of action under ERISA generally does not accrue until the plan issues a final denial.

Under ERISA, there is no statute of limitations period that sets a time limit within which participants must bring their federal claim after exhausting the internal review process. As a result – rather than being subject to varying state laws and uncertainty – many plan sponsors interpreted the statute's silence as allowing employers to fill the gap with their own time limits on benefits claims. Depending on how the plan is drafted, a time limit for filing suit may even lapse before a plan's administrative process for resolving a benefits claim can be completed.

The *Heimeshoff* Decision

Justice Clarence Thomas, writing for a unanimous Supreme Court, confirmed that absent a controlling statute to the contrary, a participant and a plan may agree by contract (e.g., in the plan document) to a particular limitation period, even one that starts to run before the participant's cause of action accrues, as long as the period is reasonable. The Court explained that, while a statute of limitations generally begins to run when the cause of action "accrues" (here, when Heimeshoff exhausted the Plan's review procedures), that rule may be shortened by the parties. The Court reasoned that because parties can

agree to the length of the limitations period, they should also be able to agree on the date when that period begins.

After determining that the statute of limitations provision in the Hartford Plan was enforceable, the Court turned to the question of whether Hartford's limitations period of three years was too short. In ruling that the time frame was not unreasonably short, Justice Thomas noted that ERISA regulations contemplate a one-year internal review process, which generally leaves participants with ample time to bring a cause of action. The Court also pointed out that, in the case at hand, there was no evidence to suggest that Heimeshoff could not have timely filed her claim within the three-year window.

Observations and Action Steps

The *Heimeshoff* case confirmed that plan sponsors and administrators may include, and now enforce, contractual statute of limitations provisions on benefits claims under ERISA. Although the case dealt with a disability plan, the decision generally applies to all ERISA plans, including certain nonqualified plans. The decision affords added flexibility and protection in defending ERISA claims, but is not a blanket protection for all types of statute of limitations periods that may be incorporated into plan documents. As of now, the decision allows employers and plan sponsors to include a plan limitation period provision of three years. Courts may also find that statute of limitation periods of 12 months or more are reasonable. However, it is unclear whether plan limitation periods of less than 12 months would be enforceable.

Plan sponsors and administrators that have not included statute of limitations periods into their ERISA plan documents may wish to review their approach to the issue across all of their ERISA plans. Certainly, they have nothing to lose and, potentially, there is much to be gained.

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