



Sixth Circuit: Mishandling of Insurance Premiums May Constitute a Fiduciary Breach

The Sixth Circuit Court of Appeals has reinstated a lower court's ERISA Section 502(a) claim for fiduciary breach over an employer's mishandling of employee life insurance and disability insurance premiums. An employee of a large U.S. retailer believed he was covered under both an employer-sponsored basic life insurance policy and an optional supplemental life insurance policy, based on the premiums he was paying for this coverage. After the employee passed away while on long-term disability (LTD) leave, his widow filed claims under both life insurance policies. The claim for the basic life insurance benefit was paid in full, but the claim for the optional life insurance benefit was denied because the coverage had terminated.

The widow sued the retailer and the plan administrator, alleging that they breached their fiduciary duty under ERISA in several ways, including assessing certain premiums in error; failing to remit premiums to the life insurance company for the optional coverage; and failing to inform the employee that his 50 hours of accrued paid time off (PTO) could have been used to cover his optional life insurance premiums.

A district court dismissed the widow's fiduciary breach claim, reasoning that the widow's allegations with respect to the mishandled premiums were administrative in nature and fell "outside the scope of ERISA's fiduciary requirements."

On appeal to the Sixth Circuit, a review of the relevant plan documents revealed that the LTD policy contained a waiver of premium provision, meaning that the employee was not required to pay premiums for LTD insurance during the time he was receiving those benefits.

Nevertheless, the retailer continued to charge the employee those premiums. The appeals court also found that the retailer failed to remit the premiums for the optional life insurance coverage on the employee's behalf, and failed to inform the employee that his accrued PTO could have been used to cover his optional life insurance premiums.

By committing and failing to correct these errors, the Sixth Circuit ruled that the retailer mishandled the plan's assets and breached its fiduciary duty pursuant to its statutory obligations under ERISA. Such alleged premium improprieties demonstrated a failure to exercise fiduciary duties "with the care, skill, prudence, and diligence of a prudent person acting under similar circumstances." For these reasons, the Sixth Circuit reversed the lower court's ruling on the fiduciary breach claim and remanded the case to the lower court for further proceedings consistent with this opinion.

Full text of Chelf v. Prudential Insurance Company of America, No. 20-6097 (6th Cir. April 12, 2022)

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