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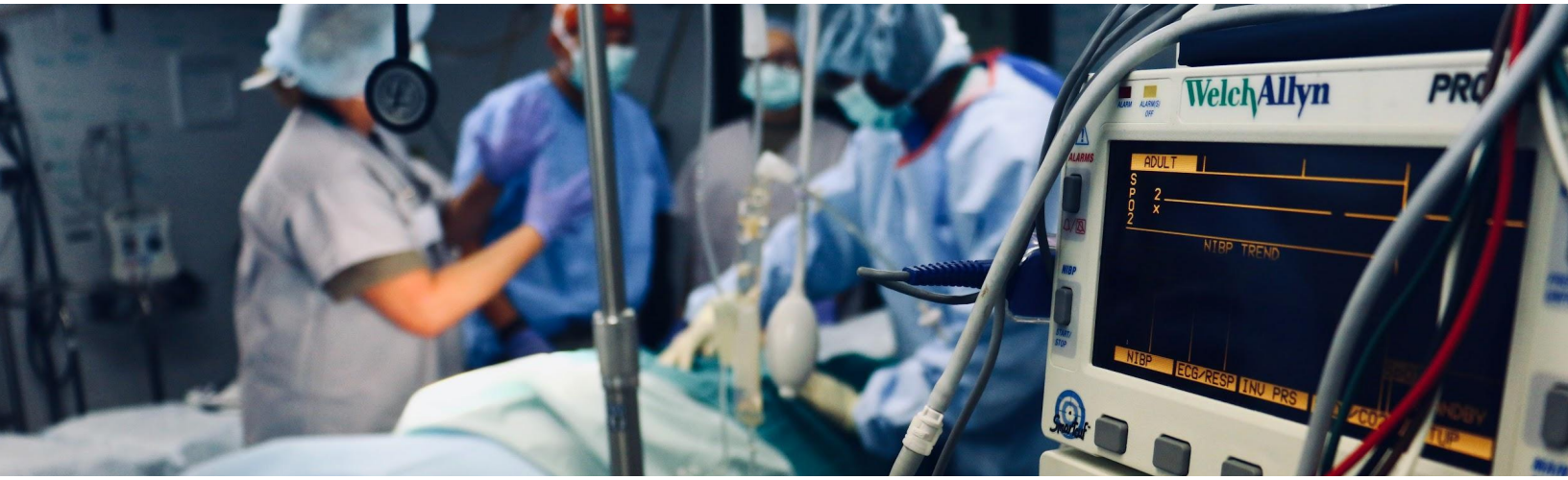

Court: Pre-Authorization of Medical Procedures Constituted an Oral Contract

A federal judge in New Jersey has ruled that pre-authorizations provided to a medical provider by a health insurance carrier confirming that the costs for certain medical procedures would be reimbursed by the insurance carrier constituted an “oral contract” that must be honored.

The medical provider performed services on dozens of patients insured by United Healthcare (UHC) based on the advanced pre-authorizations it received from UHC. Because there was no agreement between the medical provider and UHC, the provider was deemed to be an “out-of-network” provider and, as such, the provider billed UHC the “usual, customary, and reasonable” (UCR) fees for the medical procedures it provided. UHC then contracted with another company “to conduct unilateral back-end negotiations” with

out-of-network providers. As a result of the negotiations, UHC ended up paying the medical provider roughly twenty percent of the going UCR rate.

The medical provider sued UHC in state court alleging, among other things, the following causes of action: breach of implied contract; promissory estoppel; negligent misrepresentation; and fraud. UHC successfully removed the matter to federal court on the grounds that the provider's state law claims were preempted by ERISA because they "relate to" an ERISA-governed plan.

ERISA preempts any and all state laws insofar as they "relate to" an employee benefit plan. The purpose of this broad preemption clause is to ensure that employee benefit plans are subject to a uniform body of benefit law, minimizing the administrative and financial burdens of complying with conflicting requirements of various states.

Here, however, the court noted that "the mere fact that a claim arises against the backdrop of an ERISA plan does not mean it makes 'reference to' that plan." Moreover, "the payment rate determination is as simple as checking the UCR rate based on an industry standard schedule for the services in question." Accordingly, the court concluded that, "because the [medical provider's] claims, as pleaded, neither seek benefits due under the plan, nor require more than a cursory examination of the plan, they do not make impermissible 'reference to' the plan." More specifically, "the amounts due to the [provider], if any, are not determined by the ERISA plan. Instead, the amounts are based on [UHC's] verbal commitment to the [provider] prior to the [provider] performing the medical procedures."

Noting that an oral contract binds the parties in the same manner as a written contract, the court found that the medical provider sufficiently alleged that an oral contract existed between the provider and UHC, and that the provider's state law claims fell under

a narrow exception to ERISA preemption. Consequently, the court held that the removal of the case to federal court was improper, and the matter is remanded to the state court.

Full text of Same Day Procedures, LLC v. United Healthcare Insurance Co., No. 21-00956 (D.N.J. March 17, 2022)

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