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Labor and Employment Alert: Court Faults Employer for Failing to Provide Accurate Information Regarding Life Insurance Conversion

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A federal court recently ordered an employer, WellStar Health System Inc., to pay \$750,000.00 to a former employee's widow for breaching its fiduciary duty in administering its group life insurance plan. The case, *Erwood v. Life Ins. Co. of N. Am.*, 2017 U.S. Dist. LEXIS 56348 (W.D. Pa. 2017) serves as a good reminder to employers that they must understand and properly administer conversion procedures under their group life insurance policies.

The plaintiff in this case was the widow of a deceased neurosurgeon. Her husband participated in WellStar's life insurance plan. Her husband was diagnosed with a malignant brain tumor, which required him to take medical leave. When he first went on leave, WellStar sent him a letter stating that his life insurance would terminate when his leave ended, and he could contact the benefits department about conversion at that time. Around that time, the plaintiff and her husband met with human resources representatives at WellStar about what would happen to his benefits after his leave. They sought advice from human resources regarding how to make sure their benefits remained "the same." Human resources did not discuss life insurance or conversion at that time, but assured both the plaintiff and her husband that their benefits would remain "the same." WellStar never provided additional information regarding the employee's conversion rights either before or after his medical leave ended. The insurer later denied the plaintiff's claim for life insurance benefits because her husband failed to convert the policy to an individual policy.

The plaintiff sued WellStar both for unpaid benefits and for breach of fiduciary duty. The judge found that although she was not entitled to benefits under the terms of the life insurance plan, she was entitled to that amount due to WellStar's material misrepresentation of when coverage ended and conversion under the policy.

This decision is noteworthy for several reasons. The first is that the judge utilized ERISA's equitable remedies provisions to award the plaintiff with the full amount of her unpaid life insurance benefits. The second is that the judge did so because WellStar did not adequately

explain conversion rights to its employee before his coverage ended. WellStar argued that it had provided notice to the employee both (a) through its Summary Plan Description, located on its company intranet; and (b) in the letter it sent informing the employee to contact human resources regarding conversion. The judge was unconvinced.

Employers offering group life insurance plans that have conversion options should learn several lessons from this case:

- Understand when an employee's coverage ends and when the conversion period begins. The judge faulted WellStar for not understanding its life insurance policy and incorrectly assuming that its former employee was still covered. The court stated that WellStar had a fiduciary duty to understand the eligibility components of its life insurance plan.
- Employers must follow their own policies regarding notice of conversion. In this case, WellStar's administrative manual specifically stated that WellStar was responsible for providing conversion notices to participants when their coverage terminated. The court considered the fact that WellStar did not follow its own written procedures in determining it had breached its duty to the plaintiff.

Contact your Vorys lawyer if you have questions about group life insurance policies and your conversion procedures.