

**DELEGATION OF AUTHORITY UNDER AN LTD PLAN MUST BE CLEAR
FOR ARBITRARY AND CAPRICIOUS STANDARD TO APPLY**

On March 1, 2017, the United States Court of Appeals for the First Circuit (“First Circuit”) held in Rodríguez-López v. Triple-S Vida, Inc. (2017 WL 7822293), that the District Court for the District of Puerto Rico erred in applying the arbitrary and capricious standard of review instead of the *de novo* standard of review in a civil action challenging denial of participant’s request for physical long term disability (“LTD”) benefits. In support of its decision, the First Circuit held that: (a) the Plan was not amended for Triple-S Vida (“Triple-S”) to replace Jefferson-Pilot Insurance Company (“JP”) as insurer and claims administrator of the Plan; (b) the Plan’s language did not expressly delegate to the claims administrator of the Plan discretionary authority to determine eligibility for benefits; and (c) the documented power to decide eligibility for benefits did not support the existence of discretion.

Background

Rodríguez-López (“Plaintiff”), an employee of Mova Pharmaceutical Corporation (“Mova”), participated in Mova’s employee long term disability benefit plan (the “Plan”) which was originally provided through a group insurance policy issued by JP. According to the summary plan description (“SPD”), Mova acted as the Plan’s sponsor and administrator, and was granted discretionary authority to determine eligibility for benefits. Subsequently, Triple-S replaced JP as insurer and claims administrator of the Plan, but the neither the Plan nor plan supporting documents were amended to reflect this change.

On October 10, 2005, Triple-S granted LTD benefits to the Plaintiff under the mental illness disability provision of the Plan. Triple-S also informed the Plaintiff that at the time she was not going to be awarded LTD benefits for her physical condition, and that such condition would be further investigated. After several medical evaluations, Triple-S denied Plaintiff’s application for LTD benefits on July 23, 2013, finding that Plaintiff’s administrative record did not contain sufficient evidence to conclude that she met the Plan’s definition of disabled. At the time, Triple-S terminated Plaintiff’s mental illness disability benefits since the 24-month limit granted under the terms of the Plan had already expired. The Plaintiff filed a suit challenging the denial of her LTD benefits claim. Upon cross motions for summary judgment, the District Court, applying the arbitrary and capricious standard of review, ruled in favor of Triple-S. After a timely appeal, the First Circuit reversed the District Court’s decision.

Holding

The First Circuit held that the Plan was not amended to reflect that Triple-S was JP’s successor as insurer and claims administrator of the Plan. Furthermore, the First Circuit ruled that, even if the Court agreed with Triple-S that it replaced JP as claims administrator and insurer of the Plan, the Plan’s language did not expressly delegated the claims administrator discretionary authority to determine eligibility for benefits. The Plan only granted the claims administrator the power to decide whether or not benefits are due. Therefore, assuming that Triple-S was acting as claims administrator in identical position as JP, the Plan delegated Triple-S the power to decide to pay, but no more. Such power does not imply the existence of discretion, the First Circuit held. As a consequence, the First Circuit reversed the District Court, where the District Court erred in applying the arbitrary and capricious standard of review instead of the *de novo* standard of review.

Implications to Employers

Based on the longstanding rule of the U.S. Supreme Court decision in the Firestone case (*Firestone Tire v. Bruch*, 489 U.S. 101 (1989)), employers and insurers want to make sure that the LTD plan documents and contracts (a) conspicuously provide claims administrators with discretion to benefits determinations and (b) provide that such discretion will be reviewed under the arbitrary and capricious standard. Availability of such standard in litigation is critical to justify and validate benefits determinations.

This document has been prepared for information purposes only and is not intended, and should not be relied upon, as legal advice. If you have any questions or wish to obtain more information related thereto, or about its possible effect(s) on policy or operational matters, please contact us at your convenience.

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