

Are You Making Benefit Determinations? Be Sure to Check the Plan Documents!

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PRACTICES Employee Benefits and Executive Compensation

A recent district court case highlights the importance of following the terms of the plan document in making determinations on benefit claims. In *Franke v. Fifth Amended & Restated Newfield Exploration Company Change of Control Severance Plan*, the court held that the plan committee's denial of benefits under a severance plan was arbitrary and capricious and not supported by substantial evidence. After reviewing minutes from the committee meeting at which the claim was decided, the court found the committee's decision was based on an immaterial point and not the proper standards outlined by the terms of the plan. Accordingly, the participant's claim was remanded back to the committee, with instructions for the committee to perform a proper analysis of whether the plaintiff was entitled to benefits under the terms of the plan.

Under ERISA, benefit plan administrators or their designated fiduciaries (e.g., committees) have a fiduciary duty to know and follow the terms of the governing plan documents. Although fiduciary decisions, including benefit claim determinations, generally are reviewed by courts under a higher "arbitrary and capricious" standard, they can be overturned if, among other things, a court finds that a fiduciary decision was based on a lack of substantial evidence, bad faith, or a mistake of law. If plan fiduciaries fail to follow the plan's terms in deciding claims for benefits or base their determinations on standards not included in the terms of the plan, their determinations may be found to be arbitrary and capricious.

Accordingly, plan fiduciaries responsible for deciding benefit claims should always:

- Consult and apply the terms of the plan in making their determinations;
- Base their decisions on the standards for benefits set forth in the plan documents; and
- Ensure that their decisions are not based on factors or standards not included in the plan document.

The court's opinion is available [here](#).