

Seventh Circuit Decision Highlights Importance of Understanding Insurance Policy Terms

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Over Labor Day weekend in 2014, an employee suffered a heart attack and went to the hospital. The heart attack occurred on a Sunday, and the employee received a substantial raise effective as of Labor Day Monday. The employee briefly returned to the office on the following Wednesday but incurred additional medical complications and was re-hospitalized. Eventually, the employee applied for long-term disability income replacement benefits under the employer's long-term disability ("**LTD**") plan. The underlying LTD policy calculated benefits based on a percentage of an employee's salary on his "Determination Date", which is the last day worked just prior to the date the "Disability" began. The policy also had a separate definition of "Actively at Work" that provided, in relevant part, "[u]nless disabled on the prior workday or on the day of absence, an Employee will be considered Actively at Work on a Saturday, Sunday or holiday that is not a scheduled workday" Because the defined term "Actively at Work" was used only in the provisions relating to eligibility for coverage, but not in the definition of "Determination Date", the U.S. Court of Appeals for the Seventh Circuit agreed with the insurer that the term did not apply for purposes of determining the date for calculating the employee's salary. Furthermore, because there was language in the plan granting the insurer discretion to make benefit determinations, ERISA's "arbitrary and capricious" standard of review applied. The Seventh Circuit concluded that the insurer's determination that the employee's "Determination Date" occurred before his pay was increased on Labor Day was not arbitrary and thus should be upheld.

This case demonstrates why it is important for employers to understand the terms and conditions of the insurance policies underlying their benefit plans. In this case, because the employee was not required to be at work over Labor Day weekend, the employee assumed that his "Disability" would begin no earlier than the following Tuesday and that his benefits would be based on his salary as of Labor Day. The underlying policy was not consistent with that assumption. In order to avoid potential claims under ERISA relating to misrepresentation of benefits, employers should ensure their communications with employees align with the underlying insurance policy because the policy controls how benefits are determined and paid.

The case *Ten Pas v. Lincoln Nat'l Life Ins. Co.*, No. 20-1259, 2022 WL 1074533 (7th Cir. Apr. 11, 2022) is available [here](#).