WINSTON & STRAWN LLP

CLIENT ALERT

Supreme Court Holds that ERISA Plan Can't Recover Dissipated Funds

JANUARY 22, 2016

Resolving a circuit court of appeals split, the U.S. Supreme Court in *Montanile v. Board of Trustees of the National Elevator Industry Health Plan*, No. 14-723, ruled 8-1 that Section 502(a)(3) of the Employment Retirement Income Security Act (ERISA) does not allow an employee benefit plan to recover money from a plan participant that has already dissipated settlement proceeds, even though the participant had previously agreed to reimburse the plan for medical expenses the plan previously paid out of any such settlement. This latest ruling further reinforces the need for plans to not only establish clear subrogation provisions, but also to act timely to enforce such provisions before any settlement proceeds are expended by the plan participant.

The case arose when Montanile's employee benefit plan paid him more than $120,000 to cover medical expenses from an accident. The plan included a subrogation clause that required Montanile to reimburse the plan if he later recovered any money related to accident. Montanile later received a $500,000 settlement. However, when the plan demanded payment, Montanile's attorney refused to provide any money. The attorney subsequent told the plan that he intended to release the money to Montanile. After receiving no response from the plan, the attorney gave Montanile the settlement funds. Six months later, the plan filed suit under ERISA§ 502(a)(3) which allows plan fiduciaries to obtain "appropriate equitable relief. . . to enforce. . . the terms of the plan." The plan sought an equitable lien on the settlement money, or any other property in Montanile's possession. Montanile responded that since a majority of the settlement funds had already been spent and no settlement fund existed, a lien could not be enforced.

Both the trial court and Eleventh Circuit ruled that the plan was entitled to reimbursement from Montanile's general assets, even if he had completely dissipated the discrete settlement funds. The Supreme Court disagreed, but because a fact issue remained regarding whether the settlement funds could truly no longer be identified, it remanded the case for further proceedings.

The Supreme Court based its decision on the fact that Section 502(a)(3) limits plan fiduciaries to filing suits "to obtain…equitable relief." The Court explained that if the settlement monies were still "intact" as an identifiable pot of money, then the plan's recovery of that money via an equitable lien would fall within the scope of Section 502(a)(3). However, assuming that money had been spent, Section 502(a)(3) would not permit a plan to recover the equivalent of the settlement amounts from Montanile's general assets. This was the case even though Montanile had agreed to reimburse the plan for such amounts. Notably, the Court observed that if the plan had immediately sought to enforce a lien against Montanile, it may have been able to recover the settlement amounts. However, because it did not seek the money until after the funds had allegedly be been dissipated, its suit to recover the money did not fall within the narrow confines of Section 502(a)(3).

The Court's holding in this decision underscores the importance of plans taking prompt action to enforce equitable liens by agreement. Plans should also consider establishing proactive methods of monitoring possible reimbursements to plan participants to ensure settlement funds are preserved.

2 Min Read

Related Locations

Charlotte | Chicago | Houston | Los Angeles | New York | San Francisco | Silicon Valley | Washington, DC

Related Topics

Supreme Court | ERISA

Related Capabilities

Labor & Employment | Executive Compensation Plans & Agreements

Related Regions

North America

Related Professionals

Derek G. Barella

Shane Blackstone

Joan Fife

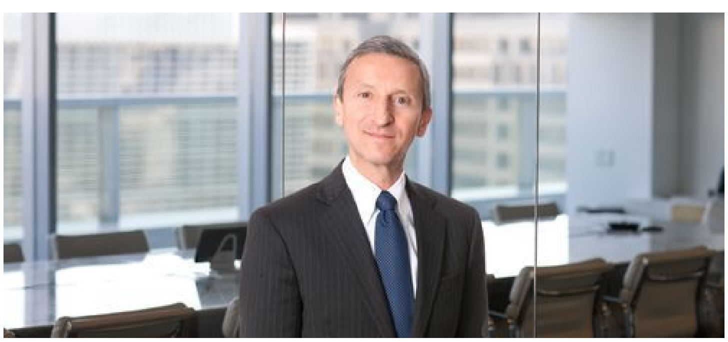
Aviva Grumet-Morris

Deborah S.K. Jagoda

Scott E. Landau

Laura Petroff

Michael Roche



Stephen Sheinfeld

Cardelle Spangler

William Sunkel

Emilie Woodhead