

Shade v. Panhandle Motor Service Corp.

(United States Court of Appeals for the Fourth Circuit, 1996 U.S. App. LEXIS 16703 (4th Cir. 1996))

Marvin Stephens (Stephens) was an employee of Panhandle Motor Service Corporation (Panhandle) between 1978 and January 11, 1992. During that time, Stephens was enrolled under his wife Carola's employee group health plan through "BCBE" and also in Panhandle's group plan through Mountain State Blue Cross & Blue Shield (Blue Cross). In the fall of 1990, Stephens was diagnosed with a seriously malfunctioning liver and became a candidate for a transplant. In December 1990 Stephens received a liver transplant and began extended recovery. During this time, Stephens requested and Panhandle recorded that Stephens was put on medical leave. According to the plan specifics, Stephens did not lose coverage due to the medical leave status. Therefore, COBRA was not offered.

On March 1, 1991, Panhandle terminated its group health plan with Blue Cross and began a self-insured plan. Panhandle also entered into an agreement with Phoenix Mutual Insurance Company (Phoenix) to provide "stoploss" coverage for Panhandle. When Panhandle transferred its employees from Blue Cross to Phoenix, it neglected to transfer Stephens. Stephens, however, was unaware that he no longer had coverage through Panhandle. On March 14, 1991, Stephens and Carola divorced. Due to the fact that Stephens was covered as a spouse under his wife's group plan with BCBE, Carola alerted her employer of the Qualifying Event (divorce). Stephens was notified of his option to continue coverage through BCBE. However, under the impression that he had coverage through Panhandle, he did not elect to continue coverage through BCBE.

Stephens returned to work (part-time) on April 11, 1991. On June 17, 1991, he terminated his employment due to illness. Based upon the requirements of COBRA, Panhandle then notified Stephens of his right to continuation coverage under the Phoenix plan. However, when Stephens tried to elect, his request was denied by Phoenix due to the fact that Panhandle had never placed him on the Phoenix plan. Stephens was now faced with large medical bills that he thought would be covered and with the knowledge that he still had no coverage for any future claims. Therefore, Stephens brought forth action against Panhandle for failure to uphold its fiduciary responsibility to make him aware of the new plan and to transfer him to that plan.

DISTRICT AND APPELLATE COURT RULING

The district court's decision (in favor of Stephens) was based upon the fact that Panhandle breached their fiduciary responsibilities (under ERISA). Not only did they not alert Stephens of the change in plan, they also neglected to enroll Stephens in the new plan (Phoenix). The court stated that Panhandle was liable *"to make good to such plan any losses to the plan resulting from each such breach,... and shall be subject to such other equitable or remedial relief as the court may deem appropriate,"* (29 U.S.C. @ 1109(a) (1988)).

The district court therefore ordered Panhandle to reimburse Stephens for all medical claims incurred between March 1991 and April 1993. (In April 1993 Stephens became eligible for Medicare benefits.) The court subtracted the amount that Stephens would have paid in premiums to Panhandle during that time and ordered Panhandle to reimburse Stephens for \$122,808.17 in medical claims and \$27,712 in attorneys' fees. Due to the fact that Phoenix was involved in defending its procedures, the court ordered Panhandle to reimburse Phoenix for its attorneys' fees as well. Panhandle appealed but, in turn, the United States Court of Appeals also found in favor of Stephens. This judgment rested on the fact that they could find no reversible error in the district court decision.