

CASE LAW

COBRA Penalties And Enforcement

Teweleit v. Hartford v. Texas Municipal League

(United States Court of Appeals for the Fifth Circuit, 43 F. 3d 1005 (5th Cir. 1995))

When her COBRA coverage was cancelled by the Hartford Life and Accident Insurance Company (Hartford), Victoria Cooley (Teweleit) filed suit. The case was filed against Hartford and her father's employer, the Texas Municipal League (TML), through whom she had been on COBRA continuation coverage. She sought payment of \$30,000 in medical bills, which she had accrued while on COBRA, and various damages.

The dispute originated when Hartford found out that, after electing COBRA, Teweleit had become covered by her husband's group health plan. Her husband's plan contained a preexisting condition provision that, in her case, would not cover the follow-up treatment she needed after a heart and lung transplant. The cancellation of coverage by Hartford occurred on May 12, 1989, prior to the OBRA 1989 amendment that definitively allowed dual coverage in a situation like this. Teweleit had been told by TML in late 1988 that if she elected COBRA and later became covered by her husband's plan, she could continue her COBRA coverage if the plan contained a preexisting condition provision that affected her. Hartford and TML settled out of court with her for a total of \$360,000. Hartford filed suit against TML to recover its half of the settlement.

DISTRICT COURT RULING

The district court decided that TML was bound by verbal promises it made regarding Teweleit's coverage. The coverage was cancelled by Hartford, in line with its plan terms. Judge Norman Black's opinion stated that Hartford had written plan terms that were "*unambiguous and will be enforced*" by the court. Hartford was awarded \$520,148.59, plus interest and certain contingent legal fees. Conservative estimates put the total award at \$750,000. TML appealed.

APPELLATE COURT RULING

In her written opinion **reversing the lower court ruling**, Judge Edith H. Jones stated that the dispute was, "*Whether covered under any other group health plan means that the beneficiary of COBRA coverage (a) generally has or obtains some second policy of health insurance, or (b) has or obtains a second policy with substantially the same benefits as the initial policy.*" Hartford argued point (a); TML point (b). Judge Jones agreed with TML. The judge decided that since Teweleit's claims were not **covered** by her husband's plan, a "*significant gap*" occurred in her coverage. Holding with other courts, including another Fifth Circuit case (*Brock v. Primedica*), Judge Jones decided the gap created by a preexisting condition exclusion qualified as significant, and dual coverage would be allowable.

The appellate court conceded that the events in this case occurred prior to the passage of the OBRA 1989 amendment that would have allowed Teweleit to continue her COBRA coverage. This court took the view, however, that the amendment was not really a **change** in the law, but merely a **clarification** of the law.

The court found that Hartford acted reasonably, in light of the legal authority available at the time. Judge Jones wrote, "*Unfortunately for Hartford, it is possible to be reasonable and yet wrong.*" The appellate court then remanded the case to district court for a decision on whether TML was entitled to recover its fees and costs incurred in litigating and settling Teweleit's lawsuit.

As of the date of the appellate decision, the judge noted **that fighting the \$30,000 claim, the parties had spent in excess of \$600,000.**