

CASE LAW

Qualified Beneficiaries

Zemko v. Muntz; and Muntz v. Chidester

(United States District Court, Northern District of Illinois, Eastern Division, 1995 U.S. Dist. LEXIS 6152 (N.D. Ill. 1995))

In April 1989 Michael Zemko began working for Muntz Industries. The medical carrier at that time was TMA Insurance Trust (TMA). Michael had family coverage that included himself, his spouse Deborah and four children. In June 1993, Lee Chidester, an insurance broker representing Muntz, proposed that Muntz switch insurance carriers to Employer's Health Insurance Company (EH). In the initial meeting on June 16, Chidester was informed of Deborah Zemko's serious medical condition (Crohn's disease) and pending divorce. Within the next week, Chidester presented the EH proposal to David Muntz, the company president. The proposal did not list Deborah Zemko as a beneficiary. Muntz accepted the proposal, effective July 1, 1993. On June 29 Chidester met with Michael Zemko in order to complete the EH enrollment form. Michael completed the form without listing Deborah as a beneficiary. On July 1 the new Muntz insurance plan went into effect. Muntz did not pay its July premium to TMA because of the new policy. There was a 31-day grace period for Muntz to pay the TMA premium. On July 23 Michael and Deborah Zemko divorced. Muntz did not offer COBRA to Deborah because she was not covered by the plan at that time and was therefore not a qualified beneficiary. Deborah successfully sued Muntz, claiming that because of the 31-day grace period on the TMA policy, she was indeed covered at the time of her qualifying event and therefore should have been offered COBRA. Muntz was ordered to pay all of Deborah's medical expenses and attorney fees.

Muntz, in turn, sued Chidester, arguing that its insurance broker had a fiduciary duty to provide accurate information pertaining to insurance coverage of individuals on COBRA, those in their election period, and individuals who would be experiencing a qualifying event in the near future.

It is undisputed that Chidester was aware that, had COBRA been enacted for Deborah, he would have had to notify EH, which he knew would not cover Deborah. Chidester also never notified Muntz of its COBRA obligation with regard to the TMA policy. Chidester stated that he was told in the original meeting, prior to the decision to go with EH, that Deborah would be converted to an individual policy. Muntz denied that the discussion with Chidester was about Deborah going to a conversion policy, but rather that it was about her continuation coverage under COBRA. Muntz further argued that even if Deborah's COBRA coverage was not specifically discussed, since Chidester was aware of the Zemko divorce and Deborah had been left off the enrollment form, Chidester should have instructed Muntz regarding its COBRA obligations. Chidester disputed the contention that he had the responsibility for notifying Muntz of their COBRA obligation at the time he found out about the divorce. He also stated that, once he found out that Deborah would not have coverage on a conversion policy, he mentioned to Muntz that "he was leaving the door open for her not being covered." The company now had the obligation to handle the continuation coverage of Deborah Zemko.

THE COURT'S DECISION

The Court determined that Chidester's duty was to procure a policy for Deborah in accordance with its specifications. If Chidester was not informed of Deborah's COBRA needs until after the policy had been accepted, then Chidester had fulfilled his duty. However, based on the opposing arguments and their respective testimonies, the Court could not determine whether or not Chidester had been informed of Deborah's COBRA needs prior to the procurement of the policy. The Court, therefore, did not grant summary judgment for either party. The Court did, however, clarify the earlier judgment by specifying the length of time for the continuation coverage (36 months) and that Deborah would get the same coverage as any other similarly situated beneficiary. The Court also awarded to Deborah the value of a conversion policy, if any, that would generally be available during the final 180 days of continuation coverage.