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Supreme Court Reaffirms Deference Standard for Plan Administrator Decisions

In a decision favorable for ERISA plan administrators, the Supreme Court in [Conkright v. Frommert](#) held that when a plan administrator has been granted the power to interpret plan terms, deference must be accorded to the administrator's interpretation, even if the administrator's first interpretation was deemed "unreasonable." This ruling reemphasizes the need for plans to be precise in their terms and include provisions giving the plan administrator discretionary authority to interpret them.

Background

A group of employees left the Xerox Corporation in the 1980s, received lump sum distributions from its pension plan, and were subsequently rehired and reinstated in the plan. The plan provided that future retirement benefits would be offset by prior distributions. In interpreting this provision, the plan administrator used a "phantom account" methodology which valued the previous distribution as though it had remained in the plan. The employees did not agree with this approach and sued in federal district court. Using the standard established in *Firestone Tire and Rubber Co. v. Bruch*, the district court deferred to the plan administrator's interpretation and ruled in favor of the plan. The U.S. Court of Appeals for the Second Circuit vacated the district court decision, finding that the plan administrator's interpretation was unreasonable and that the employees were not adequately notified of the methodology used. On remand, the plan administrator revised its interpretation to use the current value of the offset based on an interest rate fixed at the time of the distribution. The district court rejected this interpretation, and instead imposed a calculation method which did not account for the time value of the amounts paid in the prior distributions. Affirming, the Second Circuit found that the plan administrator's initial mistake in interpreting the plan precluded its entitlement to deference for its alternative interpretation. The issue before the Supreme Court was whether the deferential standard of review should apply to the plan administrator's decision when its initial interpretation was determined to be unreasonable.

Conkright v. Frommert

In deciding [Conkright v. Frommert](#), the Supreme Court first cited its earlier decision in *Firestone Tire and Rubber Co. v. Bruch*, which established the appropriate standard of review for plan administrator decisions in ERISA cases. The Court said that when a plan grants the plan administrator the discretionary authority to interpret plan provisions, decisions based upon the administrator's interpretations are entitled to deference.

Writing for the majority, Chief Justice Roberts noted that the Second Circuit created an exception to the *Firestone* standard of deference when a plan administrator previously interpreted plan terms and a court found that interpretation to have violated ERISA. The Supreme Court rejected this “one-strike-and-you’re-out” approach, and instead viewed the plan administrator’s initial interpretation as involving “a single honest mistake” in applying plan terms that the plan administrator in good faith believed to be in the plan. It reasoned that subjecting all plan administrator decisions after an initial plan interpretation error to a higher standard of review would not serve the underlying purposes of ERISA and would create additional complexity in administering plans and litigating ERISA cases. Thus, the Court ruled that the Xerox plan administrator’s interpretation should be accorded the deferential standard of review in spite of its prior error.

Considerations for Employers

The decision underscores the importance of plan provisions that clearly express the plan’s terms and give the plan administrator discretionary authority to interpret them. Although the *Conkright* decision provides comfort that a good-faith plan administrator error should not result in a loss of deference to the plan administrator’s interpretation, diligence in plan drafting and in following the terms of the plan document as it is written can avoid costly legal challenges.

It should also be standard practice in processing benefits-related claims to maintain a full administrative record of the manner in which plan claims and appeals are processed. These types of procedural steps strengthen the plan administrator’s case for a deferential standard of review.

Conclusion

Buck’s consultants would be pleased to discuss this decision with you and help ensure that your plans are in compliance with applicable ERISA requirements.

This FYI is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.