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Alerts

Ninth Circuit Rules in Favor of Medical Provider in Dispute with Insurer Regarding Anti-Assignment Provisions

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The Ninth Circuit significantly limited insurers' ability to rely on anti-assignment provisions in ERISA health plans in *Martin Luther King, Jr. Community Hospital v. Community Insurance Company dba Anthem Blue Cross Blue Shield, et al.*, 2020 U.S. App. LEXIS 31441 (9th Cir. Oct. 2, 2020). The case has broader significance because it affirms that courts can reform an ERISA plan's non-benefit aspects to prevent inequitable results.

Martin Luther King, Jr. Community Hospital involved an ERISA-governed health plan that Budco Group, Inc. (Budco) had established for its employees. Anthem Blue Cross Blue Shield (Anthem) was the insurer for the plan. Over an extended period of time, 75 Budco employees sought emergency treatment at Martin Luther King Jr. Community Hospital (MLK). While at the hospital, MLK required the employees to assign their rights to it with regard to reimbursement from Anthem.

When MLK sought reimbursement from Anthem for those out-of-network services, as provided for by the assignment executed by the employees, Anthem relied upon the anti-assignment clause in its agreements with Budco and asserted that MLK was not entitled to reimbursement directly from Anthem. Anthem asserted that the employees did not have the right to assign their reimbursement rights to MLK. Instead, Anthem paid the employees for the costs of the services and asserted that the employees were responsible to MLK, essentially putting the onus on MLK to collect from the employees directly.

Perhaps unsurprisingly, when the employees received the checks from Anthem, they deposited them directly into their own accounts. Many then refused to voluntarily reimburse MLK. While not Anthem's intention, this arguably created an incentive for Budco employees to seek out-of-network service from MLK, which had the potential to result in a moneymaking scheme for the employees.

MLK sued Anthem in California federal district court. The trial court ruled in favor of MLK on summary judgment, declining to enforce the anti-assignment provision. The Ninth Circuit affirmed, relying upon language of the plan documents and the anti-assignment clause itself to reject Anthem's unwillingness to reimburse MLK directly.

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The Ninth Circuit first analyzed the anti-assignment provision language. The court found that the manner in which the provision was drafted did not preclude a participant/employee from assigning his or her rights to a medical provider. This aspect of the ruling was specific to the Anthem-Budco contracts, and, therefore, does not have broader application to all anti-assignment clauses.

However, the Ninth Circuit then went further and discussed a second rationale for rejecting Anthem's reliance upon the anti-assignment clause, which does have broader application to the industry. The court first discussed *CIGNA Corp v. Amara*, 563 U.S. 421 (2011), in which the U.S. Supreme Court approved of a district court's decision to equitably reform a pension plan, which is generally permitted where the term sought to be reformed is not a "benefit of the plan." In *Amara*, the district court refused to enforce the anti-assignment provision on equitable grounds, holding that such a step was permissible because the anti-assignment provision was not a plan benefit, but rather an administrative provision. The Ninth Circuit noted that Anthem in this case was paying the benefit no matter what: it would either be paid to the provider or to the employee. Therefore, there was no reason that Anthem could not have put the money directly into the provider's hands without saddling the provider with the difficult, expensive, and inefficient task of collecting directly from the employees.

This case is important for insurers, as it shows that technical reliance on non-benefit provisions in an ERISA-governed plan may be reformed by the courts for equitable purposes. In this instance, the Ninth Circuit rejected the application of non-assignability provisions. The same rationale could theoretically be applied to other administrative provisions that result in an inefficient or inequitable outcome. In other words, if a plan arguably creates unnecessary difficulties that impinge a party's rights, an insurer should explore finding equitable solutions with the providers and the insureds. Otherwise, the courts may do it for them.

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