

United States District Court
For the Northern District of California

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

THOMAS A. GONDA,)	Case No. 11-1363 SC
)	
Plaintiff,)	ORDER DENYING MOTION FOR
)	<u>PARTIAL SUMMARY JUDGMENT</u>
v.)	
)	
THE PERMANENTE MEDICAL GROUP,)	
INC., THE PERMANENTE MEDICAL)	
GROUP, INC. LONG TERM)	
DISABILITY PLAN FOR PHYSICIANS,)	
)	
Defendants.)	
)	
)	

I. INTRODUCTION

Thomas A. Gonda ("Plaintiff") brings this action for equitable relief and long-term disability benefits pursuant to the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1001 et seq. The Permanente Medical Group, Inc. Long Term Disability Plan for Physicians (the "Plan") and The Permanente Medical Group, Inc. ("TMPG" or the "Plan administrator") (collectively, "Defendants") now move for partial summary judgment. ECF No. 39 ("MSJ"). Specifically, Defendants seek an order establishing that the abuse of discretion standard should be used to determine Plaintiff's entitlement to Plan benefits. Plaintiff opposes the

1 motion, arguing that the Court should apply the de novo standard of
2 judicial review. ECF No. 38 ("Opp'n").¹ The motion is fully
3 briefed, ECF No. 39 ("Reply"), and appropriate for determination
4 without oral argument per Civil Local Rule 7-1(b). For the reasons
5 set forth below, the Court DENIES the motion and finds that de novo
6 review is the appropriate standard.

7

8 **II. BACKGROUND**

9 The case concerns an ERISA Plan administered by TPMG and
10 insured by a group disability policy issued by The Life Insurance
11 Company of North America ("LINA"). ECF No. 35 ("Downey Decl.") Ex.
12 A. The effective date of the Policy is November 1, 1998, and the
13 Policy's anniversary date is January 1. The Policy grants LINA
14 discretionary authority to make claims decisions. Id. at 1802.

15 Plaintiff is a former cardio-thoracic surgeon with TPMG. He
16 left work in December 2006 and applied for benefits under the Plan
17 sometime thereafter. Defendants paid Plan benefits to Plaintiff
18 from 2008 until October 2010, when Defendants notified Plaintiff
19 that they were terminating his monthly benefits. Plaintiff
20 appealed that decision. LINA denied his appeal on May 13, 2013.

21 Prior to the disposition of Plaintiff's administrative appeal,
22 in March 2011, Plaintiff filed this action against the Plan and
23

24 ¹ Plaintiff's opposition brief is procedurally defective. It was
25 filed one day after the deadline set forth in Civil Local Rules.
26 Further, Plaintiff has styled the opposition as a cross-motion,
27 even though he has yet to notice such a motion and, to the extent
28 that he has, his notice was not filed within thirty-five days of
the scheduled hearing date, as required by Civil Local Rule 7-2(a).
Nevertheless, in the interests of justice and judicial economy, the
Court considers the arguments raised in Plaintiff's opposition
brief, including Plaintiff's argument that the Court should apply a
de novo standard of review.

1 TPMG, in its capacity as Plan administrator. Plaintiff asserts
2 claims for benefits under the Plan, breach of fiduciary duties, and
3 statutory penalties.

4
5 **III. LEGAL STANDARD**

6 Entry of summary judgment is proper "if the movant shows that
7 there is no genuine dispute as to any material fact and the movant
8 is entitled to judgment as a matter of law." Fed. R. Civ. P.
9 56(a). Summary judgment should be granted if the evidence would
10 require a directed verdict for the moving party. Anderson v.
11 Liberty Lobby, Inc., 477 U.S. 242, 251 (1986). "A moving party
12 without the ultimate burden of persuasion at trial -- usually, but
13 not always, a defendant -- has both the initial burden of
14 production and the ultimate burden of persuasion on a motion for
15 summary judgment." Nissan Fire & Marine Ins. Co., Ltd. v. Fritz
16 Cos., Inc., 210 F.3d 1099, 1102 (9th Cir. 2000).

17 "In order to carry its burden of production, the moving party
18 must either produce evidence negating an essential element of the
19 nonmoving party's claim or defense or show that the nonmoving party
20 does not have enough evidence of an essential element to carry its
21 ultimate burden of persuasion at trial." Id. "In order to carry
22 its ultimate burden of persuasion on the motion, the moving party
23 must persuade the court that there is no genuine issue of material
24 fact." Id.

25
26 **IV. DISCUSSION**

27 Defendants now move for a determination that their decision on
28 Plaintiff's claim should be reviewed under the abuse of discretion

1 standard. Plaintiff argues that the decision should be reviewed de
2 novo. "If an insurance contract has a discretionary clause, the
3 decisions of the insurance company are reviewed under an abuse of
4 discretion standard. Absent a discretionary clause, review is de
5 novo." Standard Ins. Co. v. Morrison, 584 F.3d 837, 840 (9th Cir.
6 2009). The starting point for determining the standard of review
7 is the wording of the ERISA plan. Abatie v. Alta Health & Life
8 Ins. Co., 458 F.3d 955, 963 (9th Cir. 2006), abrogated on other
9 grounds by Metro. Life Ins. Co. v. Glenn, 554 U.S. 105 (2008).

10 Defendants argue that the abuse of discretion standard applies
11 here because the Policy grants LINA the discretion to interpret the
12 terms of the Plan documents, to decide questions of eligibility for
13 coverage, and to make any related findings of fact. MSJ at 2.
14 Plaintiff responds that the de novo standard applies because any
15 grant of discretionary authority contained in the Plan or the
16 Policy was rendered void by California Insurance Code section
17 10110.6.

18 Section 10110.6 provides in relevant part:

19
20 (a) If a policy, contract, certificate, or agreement
21 offered, issued, delivered, or renewed, whether or not
22 in California, that provides or funds life insurance
23 or disability insurance coverage for any California
24 resident contains a provision that reserves
25 discretionary authority to the insurer, or an agent of
the insurer, to determine eligibility for benefits or
coverage, to interpret the terms of the policy,
contract, certificate, or agreement, or to provide
standards of interpretation or review that are
inconsistent with the laws of this state, that
provision is void and unenforceable.

26 (b) For purposes of this section, "renewed" means
27 continued in force on or after the policy's
anniversary date.

28

1 (c) For purposes of this section, the term
2 "discretionary authority" means a policy provision
3 that has the effect of conferring discretion on an
4 insurer or other claim administrator to determine
entitlement to benefits or interpret policy language
that, in turn, could lead to a deferential standard of
review by any reviewing court.

5

6 (g) This section is self-executing. If a life
7 insurance or disability insurance policy, contract,
8 certificate, or agreement contains a provision
9 rendered void and unenforceable by this section, the
parties to the policy, contract, certificate, or
agreement and the courts shall treat that provision as
void and unenforceable.

10 The effective date of the statute is January 1, 2012. Thus,
11 any policies offered, issued, delivered, or renewed after that date
12 are void to the extent that they grant discretionary authority to
13 insurers or their agents. The pertinent issues here are: (1)
14 whether Plaintiff's claim accrued after the statute's effective
15 date, and, if so, (2) whether the policy was renewed after the
16 statute's effective date, but before Plaintiff's claim accrued.

17 The Ninth Circuit provided a framework for addressing the
18 first issue in Grosz-Salomon v. Paul Revere Life Insurance, 237
19 F.3d 1154 (9th Cir. 2001). In that case, the court held that an
20 ERISA cause of action based on a denial of ERISA benefits accrues
21 at the time benefits are denied. Id. at 1160-61. The court
22 reasoned that an employee's rights under an ERISA plan do not vest
23 when the employee files a claim, since the insurer may unilaterally
24 change its long-term disability plan. Thus, for the purposes of
25 this action, Plaintiff's ERISA claim accrued on May 13, 2013, when
26 LINA denied his final appeal, over a year after section 10110.6's
27 January 1, 2012 effective date.

1 As to the second issue, Defendants argue that the Policy was
2 not offered, issued, delivered, or renewed after section 10110.6's
3 effective date, and therefore the statute does not void the
4 Policy's grant of discretion to LINA. The effective date of the
5 Policy is November 1, 1998, and the Policy's anniversary date is
6 January 1. Downey Decl. Ex. A. The Policy was reissued on January
7 1, 2005 and again on January 1, 2009. Id. Exs. A, B. The Policy
8 has also been amended eleven times since 1998. Id. Ex. C.
9 Defendants argue that, at the time Plaintiff's claim accrued in May
10 2013, the controlling version of the Policy was the one reissued on
11 January 1, 2005, several years before section 10110.6 took effect.
12 Reply at 3. Defendants reason that each subsequent reissue and
13 amendment of the Policy expressly applied only to insured employees
14 in active service on the date of the reissue or amendment, and that
15 Plaintiff left active service when he went on disability in
16 December 2006. Id.

17 Defendants' focus on the reissue of the Policy in 2009 and the
18 post-1998 Policy amendments is misplaced, since by operation of
19 law, the Policy automatically renews every year. For the purposes
20 of section 10110.6, "'renewed' means continued in force on or after
21 the policy's anniversary date." Cal. Ins. Code § 10110.6(b).
22 Thus, the Policy renews as to Plaintiff every year on the Policy's
23 January 1 anniversary date. As the Policy renewed after section
24 10110.6 took effect on January 1, 2012 and before the final denial
25 of Plaintiff's disability claim on May 13, 2013, the statute's
26 provisions must be read into the Policy. Accordingly, the Court
27 finds that any provision in the Policy that attempts to confer
28 discretionary authority to Defendants or LINA is void and

1 unenforceable.²

2 Defendants argue that the Court should apply the abuse of
3 discretion standard even if the Policy's grant of discretionary
4 authority is void and unenforceable. Reply at 6. Defendants point
5 out that, in 2003, the Plan executed an "Appointment of Claim
6 Fiduciary" ("ACF"), appointing LINA as the claim fiduciary and
7 granting LINA discretionary authority "to interpret the terms of
8 the Plan, including the Policies; to decide questions of
9 eligibility for coverage or benefits under the Plan; and to make
10 any related findings of fact." Downey Decl. Ex. E. Defendants
11 reason that section 10110.6 does not disturb this grant of
12 discretionary authority since section 10110.6(g) only applies to
13 "polic[ies], contract[s], certificate[s], or agreement[s] . . .
14 that provide[] or fund[] life insurance or disability coverage . .
15 .," and the ACF is none of these things. Similarly, Defendants
16 argue that the Summary Plan Description ("SPD") in effect in 2013
17 contained a grant of discretion that cannot be voided by section
18 10110.6, reasoning that the SPD is not an insurance policy,
19 contract, certificate or agreement. Reply at 9.

20 Defendants' theory is novel but wholly unpersuasive.
21 Defendants have cited no authority suggesting that an ERISA plan
22 document may contain enforceable provisions that are contrary to

23 _____
24 ² Faced with substantially similar facts, Judge Illston reached the
25 same conclusion in Polnicky v. Liberty Life Assurance Co. of
26 Boston, C 13-1478 SI, 2013 WL 6071997 (N.D. Cal. Nov. 18, 2013).
27 Defendants argue that Polnicky is distinguishable since the policy
28 documents in that case did not provide that the insured was not
covered by subsequent amendments or reissued versions of the
policy. Reply at 5. However, Judge Illston, like the undersigned,
was primarily concerned with the automatic annual renewal of the
policy. Id. at *3-4 ("[T]he discretionary authority provision of
the Policy in this case was altered on the Policy's January 1, 2012
anniversary date, prior to the denial of plaintiff's claim.").

1 the terms of the ERISA plan. The ACF merely delegated the
2 discretionary authority that was established by the Policy. Once
3 section 10110.6 voided the Policy's grant of discretionary
4 authority, it also voided any delegation of that authority made
5 pursuant to the Policy. Likewise, Defendants' SPD argument rests
6 on the untenable assumption that a description of the Plan somehow
7 trumps the terms of the Plan itself. Under Defendants' logic,
8 section 10110.6 is practically meaningless: ERISA plans could grant
9 discretionary authority to determine eligibility under an insurance
10 policy, so long as the grants were set forth somewhere other than
11 in the insurance policy. That is clearly not the law.

12 Defendants also contend that, to the extent that section
13 10110.6 does affect the ACF and SPD, it is preempted by ERISA.
14 Reply at 8. Under 29 U.S.C. § 1144(a), ERISA "supersede[s] any and
15 all State law insofar as they may now or hereafter relate to any
16 employee benefit plan." However, § 1144(b) saves from preemption
17 "any law of any State which regulates insurance, banking, or
18 securities." Defendants argue that the ACF and SPD are ERISA plan
19 documents, but not insurance policies, and therefore any state law
20 that purports to regulate them cannot be saved from preemption.

21 Id.

22 The Court disagrees. To fall under the savings clause, a
23 state law (1) "must be specifically directed toward entities
24 engaged in insurance," and (2) "must substantially affect the risk
25 pooling arrangement between the insurer and the insured."
26 Morrison, 584 F.3d at 842 (internal quotations omitted). The Ninth
27 Circuit has already held that state laws regulating discretionary
28 clauses in insurance policies fall under the savings clause. Id.

1 The Court sees no reason why the result should differ when a state
2 law is directed toward a discretionary clause contained in an
3 agreement or another document relating to the administration of an
4 insurance policy.

5

6 **V. CONCLUSION**

7 For the foregoing reasons, the Court DENIES Defendants' motion
8 for partial summary judgment and finds that the appropriate
9 standard of review is de novo.

10

11 IT IS SO ORDERED.

12

13 January 16, 2014

14


UNITED STATES DISTRICT JUDGE

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