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Employee Benefit Plan Review

Federal Appeals Court Reverses Dismissal of ERISA Healthcare Fee Suit Against Third-Party Administrator

By Lindsey R. Camp, Todd D. Wozniak and Monica I. Perkowski

There has been a recent rise in Employee Retirement Income Security Act of 1974 (ERISA) litigation against third-party administrators (TPAs) and other service providers challenging their management of self-funded health plans. These cases involve self-funded employers that claim that their health plan TPAs violated their ERISA fiduciary duties by failing to act solely in the interest of participants and beneficiaries of the health plan when administering the plan and disbursing its assets. In addition to breach of fiduciary duty claims, plaintiffs in these cases allege ERISA prohibited transaction claims.

The U.S. Court of Appeals for the Sixth Circuit recently considered these allegations in *Tiara Yachts Inc. v. Blue Cross Blue Shield of Michigan*,[1] where it reversed the U.S. District Court for the Western District of Michigan's dismissal of Tiara Yachts Inc.'s claims, holding that Tiara Yachts had plausibly alleged that Blue Cross Blue Shield of Michigan (BCBSM) acted as a fiduciary and had mismanaged plan assets by overpaying health claims and then "profited from its mismanagement" by "claw[ing] . . . back" overpayments and keeping those "'savings' for itself."

Tiara Yachts' Claims

Tiara Yachts alleged that BCBSM, as plan administrator, breached its fiduciary duties under ERISA by systematically overpaying claims submitted by medical providers. Tiara Yachts alleged that BCBSM processed claims using an "'intentional design' called 'flip logic'" in order to overpay out-of-state providers. By using this system, BCBSM allowed providers to bill and get fully reimbursed for highly inflated costs of service. Tiara Yachts alleged that BCBSM concealed this "flip logic" design from its customers and limited access to claims data.

In addition, Tiara Yachts alleged that BCBSM breached its fiduciary duties by implementing a Shared Savings Program (SSP) through which it profited from its practice of overpaying claims. Tiara Yachts alleged that, through the SSP, BCBSM hired third parties to claw back overpayments and prevent future overpayments, and in exchange, BCBSM kept 30 percent of the payments third parties either recovered or prevented.

Tiara Yachts also alleged that BCBSM engaged in self-dealing by using the SSP to profit off of its own mismanagement of plan assets. Tiara Yachts sought damages, restitution, disgorgement and a declaratory judgment that

BCBSM had breached its fiduciary duties under ERISA.

BCBSM's Motion To Dismiss

In its motion to dismiss, BCBSM argued that it did not act as a fiduciary in connection with the challenged conduct. Rather, the conduct at issue – including alleged claims processing errors – were covered by the parties' contract, which provided "specific and explicit mechanisms for auditing and disputing overpayments or errors in claims processing."[2]

BCBSM further argued that even if it was an ERISA fiduciary, Tiara Yachts had failed to state a claim because it had failed to articulate what specific ERISA fiduciary duty BCBSM had purportedly breached. BCBSM argued that alleging errors in data processing or alleging hypotheticals with respect to data deficiencies is insufficient to state a claim under ERISA. BCBSM emphasized that the complaint failed to identify the specific overpaid claims and its generalized claims were insufficient.

Finally, BCBSM argued that ERISA's remedial scheme does not authorize the recovery that Tiara Yachts sought because Tiara Yachts' allegations concerned BCBSM's payments to providers and not funds that BCBSM retained.

District Court Decision

The district court dismissed Tiara Yachts' claims, holding that the complaint failed to plausibly allege that BCBSM acted as an ERISA fiduciary with respect to the challenged conduct. The district court determined that the case is "at bottom a contractual dispute" because the "complaint is plainly covered by the contractual duties" delineated in the agreement between the parties. The district court also held that even if the claims amounted to breaches of ERISA fiduciary duties, the relief sought by Tiara Yachts was unavailable because "recovery must flow to the Plan, not to the Plan sponsor," and the plan was not even a party to this lawsuit.

The Sixth Circuit's Decision

The core issue that the Sixth Circuit considered on appeal was whether BCBSM acted as an ERISA fiduciary with respect to each of the alleged fiduciary breaches, including systematically overpaying claims, profiting from the overpayments and concealing these practices by limiting Tiara Yachts' access to claims data. This inquiry considered whether the conduct "involved either control over plan assets or discretionary authority over plan management or administration."

With respect to the overpayment of claims, the Sixth Circuit held that Tiara Yachts had plausibly alleged that BCBSM "'had the authority to write checks on the Plan account' and exercised 'control over where Plan funds were deposited and how and when they were disbursed.'"[3] The court held that this was "enough to plausibly allege that BCBSM acted as a fiduciary when it controlled – and then 'fail[ed] to preserve' – Plan assets."[4] In so holding, the Sixth Circuit rejected the district court's conclusion that the claims-processing issues "are fully matters of contract" and not actionable under ERISA.

The court reasoned that "contractual duties and ERISA fiduciary status are not mutually exclusive." Rather, "an administrator's performance (or nonperformance) of its contractual obligations can illuminate whether it was acting as an ERISA fiduciary." On this point, the court agreed with the U.S. Department of Labor's argument in its amicus brief – "to hold that an administrator like BCBSM insulates itself from ERISA liability because a contract governs its relationship with its customer would 'gut ERISA's fiduciary provisions.'"

The court also held that Tiara Yachts had plausibly alleged that BCBSM acted as an ERISA fiduciary "by exercising discretion over its own compensation for the SSP." The court focused on Tiara Yachts' allegations that BCBSM's "self-dealing was nefarious: BCBSM intentionally inflated the pool of overpayments from which it could profit. The more overpayments BCBSM made on the front-end while processing claims, the more money it could receive on the back-end through the SSP." The court found that these allegations were sufficient to support BCBSM's fiduciary status with respect to its own compensation.

The court reversed the district court's "alternative holding for dismissing [the] complaint – that ERISA does not provide the relief [Tiara Yachts] seeks." The district court held that Tiara Yachts could not recover under 29 U.S.C. Section 1132(a)(2) because "its complaint sought recovery on behalf of itself, not the Plan." The Sixth Circuit reasoned that the district court had read the complaint too "narrowly" and, in essence, "elevate[d] form over substance." The court held that the allegations in the complaint "plausibly placed BCBSM on notice that Tiara Yachts sought recovery for losses to the Plan."

The Sixth Circuit's decision highlights the broad scope of ERISA fiduciary duties.

The court also rejected BCBSM's argument on appeal that disgorgement and restitution are unavailable to Tiara Yachts because Tiara Yachts "essentially seeks 'basic contract damages.'" The court noted that "the fact that Tiara Yachts alleges BCBSM broke its promises in the [contract] does not transform Tiara Yachts' claim into one under contract rather than ERISA." To that end, the court noted that the relief that Tiara Yachts requests is "for BCBSM to return the funds it overpaid from Plan assets and the profits it generated from SSP fees." This does not amount to contract-based expectation damages.

CONCLUSION

The Sixth Circuit's decision highlights the broad scope of ERISA fiduciary duties. It clarifies that TPAs who exercise sufficient control or discretion over plan assets are ERISA fiduciaries and are not exempt from fiduciary scrutiny even if they are acting pursuant to a contract. The fiduciary inquiry is, however, a complex one and specific to the particular facts and circumstances of a case. To minimize risks of fiduciary liability, plan sponsors and fiduciaries are encouraged to adopt best practices, including implementing regular plan audits, maintaining clear records of decision-making processes and keeping abreast of legal developments on ERISA fiduciary responsibility.

IN SUMMARY

- In *Tiara Yachts Inc. v. Blue Cross Blue Shield of Michigan*, the Sixth Circuit reversed the district court's dismissal of Tiara Yachts' claims alleging that BCBSM breached its ERISA fiduciary duties and engaged in self-dealing by systematically overpaying health claims from out-of-state medical providers.
- The Sixth Circuit held that Tiara Yachts had plausibly alleged that BCBSM, as TPA, was an ERISA fiduciary to the plan and had profited off of its mismanagement of plan assets.
- The Sixth Circuit's decision is a significant development in the recent surge in ERISA health fee litigation involving claims against TPAs and provides insight into the scope of TPA fiduciary status beyond what is provided for in a service contract.

NOTES

1. No. 24-1223, 2025 WL 1453273 (6th Cir. May 21, 2025).
2. No. 1:22-cv-00603, ECF No. 12 at 11.
3. Citation omitted.
4. Citation omitted.

The authors, attorneys with Holland & Knight LLP, may be contacted at lindsey.camp@hklaw.com, todd.wozniak@hklaw.com and monica.perkowski@hklaw.com, respectively.