Freeborn

Your Future Is Our Purpose

LKQ Corporation

A FREEBORN & PETERS LITIGATION VICTORY

LKQ Corporation ("LKQ") won a significant victory before the United States District Court for the Eastern District of California in *Cox, et al. v. Reliance Standard Life Insurance Company, et al.*, Case No. 1:13-CV-00104-AWI-JLT.

Steven Miles Edwards enrolled for coverage under the LKQ Corporation life insurance plan shortly after beginning employment. He sought to obtain $25,000 in basic coverage and $310,000 in supplemental coverage. Mr. Edwards enrolled for coverage on-line. Under the Plan, a participant is required to provide evidence of good health in order to obtain supplemental coverage over $200,000. Mr. Edwards did not submit proof of good health. However, due to a system error, Mr. Edwards' enrollment application was processed, and premiums were deducted from his payroll checks sufficient to provide coverage in the amount of $310,000.

Mr. Edwards died, and the insurer denied his beneficiaries' claims for supplemental benefits in the amount of $310,000. Based on the proof of good health requirement, the insurer only approved benefits in the amount of $200,000. Eventually, the beneficiaries filed suit The Complaint alleged two counts of recovery against LKQ. The first was a claim for benefits, and the second was a claim for breach of fiduciary duty that sought recovery under the equitable theories of surcharge and estoppel.

LKQ filed a motion to dismiss the complaint. LKQ asserted that it was not a proper defendant for the claim for benefits, that the claim for fiduciary liability was impermissibly duplicative and that LKQ was not a proper defendant in a fiduciary breach action because it did not qualify as an ERISA fiduciary in the relevant context.

The Court granted the motion in full and dismissed LKQ from the case with prejudice. Citing *Cyr v. Reliance Standard Life Ins. Co.*, 642 F.3d 1202, 1206-07 (9th Cir. 2011), the Court first noted that the proper defendant to an ERISA claim for benefits is the party with authority to resolve benefit claims or responsibility to pay them. Here, the pleadings and the relevant life insurance policy failed to show that LKQ had any authority to resolve plaintiffs' benefit claims. Further, the pleadings and the policy showed that the insurer was the sole entity with responsibility to pay under the policy. Accordingly, the Court held that LKQ was not a proper defendant to plaintiff's first claim for relief and granted LKQs motion to dismiss the first count.

As to the second count, the Court agreed with LKQ's assertion that an ERISA claim for equitable relief is not proper in this context because plaintiffs also brought a claim for benefits against LKQ. The Court pointed out that plaintiff's first claim for relief sought unpaid life insurance benefits under ERISA Section 502(a)(1)(B), and the second claim for relief sought the same unpaid life insurance benefits under ERISA Section 502(a)(3) on theories of equitable estoppel and surcharge. Based on relevant precedent, the Court held that Plaintiffs' claim for equitable relief is barred because Plaintiffs asserted a duplicative claim for benefits under ERISA Section 502(a)(1)(B).

This case is significant because the Court remained faithful to the terms of the Plan despite Plaintiffs' arguments that it should deviate from the arrangement in the interests of equity. By properly considering this case for what it was—a claim for benefits—the Court provided relief to LKQ and all employers by providing some assurance that an employer could rely on the terms of its plan and the business planning related to formulating those terms.

The case was handled by Michael Tomasek, John Hammerle and Gladys Zolna.