Recent Court Decisions

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Ambiguous Language in Health Contract Construed Against Drafter

Phillips v. Lincoln National Life Insurance Company, 978F.2nd 302 (7 Cir. 1992).

In November 1984, an employer established a benefit plan for its employees through the purchase of a group health insurance policy from Lincoln National Life Insurance Company. The parties agreed that the Plan was an employee welfare benefit plan governed by ERISA. The president of the company and his dependent son were eligible participants in the Plan.

In December 1981, the son was diagnosed as suffering from congenital encephalopathy, a brain malfunction manifested by neurological defects. From the effective date of the Plan in 1984 until 1987, Lincoln paid $25,000 in benefits for expenses incurred in the treatment of the son's illness. Lincoln subsequently refused to reimburse plaintiff for any subsequent expenses citing the Plan's $25,000 mental illness limitation. The plaintiff filed suit in federal district court, and the district court held that Lincoln erroneously applied the mental illness benefit limitation and entered a summary judgment in favor of the plaintiff. Lincoln appealed, and the court of appeals held that the $25,000 mental illness coverage limitation in the Plan was ambiguous because the Plan did not define the term "mental illness."

In its appeal, Lincoln presented several arguments. Lincoln argued that expert opinion supported its view that the Plan limitation applied to the son's condition. Lincoln argued that the physicians agreed that the son suffered from a mental disorder. The court rejected these arguments. The court quoted one doctor's opinion that the son suffered from "organic mental disorder as one manifestation of his underlying neurological disease" and not from a mental illness. The doctor defined mental illness as "state of being psychotic or out-of-contact with reality" when there is no accepted organic basis for the condition. The other physician testified that organic brain syndrome is an example of a mental disorder or mental illness. The court found the doctors' testimony resulted in a semantic disagreement among experts.

Lincoln argued that the Plan limited benefits for mental illness of any type or cause, and thus, the Plan excluded the cause of an illness as a relevant factor in determining the applicability of the limitation to a given mental condition. In essence, Lincoln argued that because the mental disorder has an organic cause that fact cannot be used as a reason for excluding his condition from the mental illness limitation's coverage. The plaintiff's position was that the son did not suffer from a "mental illness" and therefore the limitation was inapplicable. The court sided with the plaintiff's argument on this point.

Lincoln's third contention was that mental illness ought to be defined as a condition whose primary observable symptoms are behavioral. The Court found that it was faced with competing definitions of mental illness and thus wrote, "We have no trouble agreeing with the district court's finding that the term mental illness as used in the Plan is ambiguous."

The court held that the ambiguous contract should be construed against the drafter of the contract. The court also found that the district court correctly adopted the state law rule of contract interpretation as part of the federal common law of ERISA. The court cited precedent which held that when ERISA is silent on an issue, the federal court must fashion federal common law rules to govern ERISA suits. In making such rules, the courts are to look to the federal statutes for guidance and also state law that is not inconsistent with the federal statutes.

Chief Judge Bauer, in his dissent, agreed that insurance coverage and exclusions must be written in a manner calculated to be understood by the average plan participant. However, he found that the policy clearly limited coverage "for care of mental illness or care of nervous conditions of any type or cause." Thus, he found a fair reading of the problems faced by the plaintiff led to the conclusion that the son suffered from a mental illness or nervous disorder.

Fair Housing Act Can Apply to Insurer's Practice of Redlining

National Association for the Advancement of Colored People v. American Family Mutual Insurance Company, 978F.2d. 287 (7 Cir. 1992).

The issue in this case, as framed by the circuit court, was, "Is redlining in the insurance business a form of racial discrimination violating the Fair Housing Act?"

Plaintiffs brought suit against the defendant alleging "redlining," that is, declining to write insurance for people who live in certain geographic areas or charging higher rates for those persons. The Fair Housing Act prohibits discrimination in the provision of services in connection with the sale of a dwelling. The district court found the Fair Housing Act did not apply to the property and casualty insurance business. Plaintiff appeals and the circuit court reversed and held that the Fair Housing Act did apply to discriminatory denials of insurance and discriminatory pricing because such redlining activities effectively preclude ownership of housing because of the applicant's race.