Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

UNUM LIFE INSURANCE CO. OF AMERICA *v.* WARD

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

No. 97–1868. Argued February 24, 1999– Decided April 20, 1999

Defendant-petitioner UNUM Life Insurance Company of America (UNUM) issued a long-term group disability policy to Management Analysis Company (MAC) as an insured welfare benefit plan governed by the Employee Retirement Income Security Act of 1974 (ERISA). The policy provides that proofs of claim must be furnished to UNUM, at the latest, one year and 180 days after the onset of disability. Under the admitted facts of this case, plaintiff-respondent Ward, a MAC employee, became permanently disabled on May 5, 1992. In late February or early March 1993, he qualified for state disability benefits in California, where he worked, and thereupon informed MAC of his disability. In April 1994, Ward asked MAC whether its long-term disability plan covered his condition. When MAC told him it did, Ward completed a benefits application and sent it to MAC, which processed the application and forwarded it to UNUM. UNUM received proof of Ward's claim on April 11, 1994. Because this notice was late under the policy terms, UNUM advised Ward that his claim was denied as untimely. Ward filed this suit under ERISA's civil enforcement provision, 29 U. S. C. §1132(a), to recover the disability benefits provided by the plan. He argued that, because a California employer administering an insured group health plan should be deemed to act as the insurance company's agent under *Elfstrom* v. *New York Life Ins. Co.*, 67 Cal. 2d 503, 512, 432 P. 2d 731, 737, his notice of permanent disability to MAC, in February or March 1993, sufficed to supply timely notice to UNUM. The District Court rejected this argument, concluding that California's *Elfstrom* rule is subject to ERISA's preemption clause, §1144(a), which states that ERISA provisions "shall supersede . . . State laws" to the extent that those laws "relate to any employee benefit plan." In rendering sum-

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mary judgment for UNUM, the District Court further held that the *Elfstrom* rule is not preserved under ERISA's saving clause, §1144(b)(2)(A), which exempts from preemption "any law of any State which regulates insurance." The Ninth Circuit reversed, identifying two grounds on which Ward might prevail. First, that court relied on California's "notice-prejudice" rule, under which an insurer cannot avoid liability although the proof of claim is untimely, unless the insurer shows it suffered actual prejudice from the delay. Following its precedent, the appeals court held that the notice-prejudice rule is saved from ERISA preemption as a law that "regulates insurance." Second, and contingently, the Ninth Circuit held that the *Elfstrom* agency rule does not "relate to" employee benefit plans, and therefore is not preempted by reason of ERISA. The court remanded the case for a determination whether UNUM suffered actual prejudice from Ward's late notice of claim; and if so, whether, under *Elfstrom*, Ward could prevail because he had timely filed his claim.

Held:

1. California's notice-prejudice rule is a "law . . . which regulates insurance," and is therefore saved from preemption by ERISA. Pp. 5–14.

(a) Because the parties agree that the notice-prejudice rule falls under ERISA's preemption clause as a state law that "relate[s] to" employee benefit plans, their dispute hinges on whether the rule "regulates insurance" and thus escapes preemption under the saving clause. This Court's precedent provides a framework for resolving that question. First, the Court asks whether, from a "common-sense view of the matter," the contested prescription regulates insurance. *E.g.*, *Metropolitan Life Ins. Co.* v. *Massachusetts*, 471 U. S. 724, 740. Second, the Court considers three factors to determine whether the regulation fits within the "business of insurance" as that phrase is used in the McCarran-Ferguson Act: whether the regulation (1) has the effect of transferring or spreading a policyholder's risk, (2) is an integral part of the policy relationship between the insurer and the insured, and (3) is limited to entities within the insurance industry. *Id.*, at 743. Pp. 5–6.

(b) The Ninth Circuit correctly concluded that the notice-prejudice rule "regulates insurance" as a matter of common sense. This Court does not normally disturb an appeals court's judgment on an issue so heavily dependent on analysis of state law, see *Runyon* v. *McCrary*, 427 U. S. 160, 181–182, and there is no cause to do so here. Because it controls the terms of the insurance relationship by requiring the insurer to prove prejudice before enforcing proof-of-claim requirements, the California rule, by its very terms, is directed specifically at the insurance industry and is applicable only to insurance con-

tracts. The rule thus appears to satisfy the common-sense view as a regulation that homes in on the insurance industry and does not just have an impact on that industry. *Pilot Life Ins. Co.* v. *Dedeaux*, 481 U. S. 41, 50. The Court rejects UNUM's argument that the rule cannot be held to "regulate insurance" because it is merely an industry-specific application of the general principle that disproportionate forfeiture should be avoided in the enforcement of contracts. While the notice-prejudice rule is an application of the maxim that law abhors a forfeiture, it is an application of a special order, a rule mandatory for insurance contracts, not a principle a court may pliably employ when the circumstances so warrant. Tellingly, UNUM has identified no California authority outside the insurance-specific notice-prejudice context indicating that, as a matter of law, failure to abide by a contractual time condition does not work a forfeiture absent prejudice. Outside the notice-prejudice context, the burden of justifying a departure from a contract's written terms generally rests with the party seeking the departure. Moreover, California and other States have adopted the notice-prejudice rule to address policy concerns specific to the insurance industry. Pp. 6–11.

(c) The notice-prejudice rule regulates the "business of insurance" within the meaning of the McCarran-Ferguson Act. Preliminarily, the Court rejects UNUM's assertion that a state regulation must satisfy all three McCarran-Ferguson factors in order to "regulate insurance." Those factors are considerations to be weighed, *Pilot Life*, 481 U. S., at 49, and none is necessarily determinative in itself, *Union Labor Life Ins. Co.* v. *Pireno*, 458 U. S. 119, 129. The *Metropolitan Life* Court called the factors "relevant," 471 U. S., at 743, and looked to them as checking points, not separate essential elements that must each be satisfied. The Court need not determine whether the rule at issue satisfies the first, "risk-spreading," McCarran-Ferguson factor, because the remaining factors, verifying the common-sense view, are securely satisfied. Meeting the second factor, the notice-prejudice rule serves as an integral part of the insurance relationship because it changes the bargain between insurer and insured; it effectively creates a mandatory contract term that requires the insurer to prove prejudice before enforcing a timeliness-of-claim provision. The third factor–whether the rule is limited to insurance entities– is also well met, since it is aimed at the insurance industry and does not merely have an impact upon it. See *FMC Corp.* v. *Holliday*, 498 U. S. 52, 61. Pp. 12–14.

2. The Court rejects UNUM's assertion that the notice-prejudice rule conflicts in three ways with substantive provisions of ERISA. First, UNUM's contention that the rule, by altering the notice provisions of the insurance contract, conflicts with ERISA's requirement

that plan fiduciaries act "in accordance with the documents and instruments governing the plan," §1104(a)(1)(D), overlooks controlling precedent and makes scant sense. This Court has repeatedly held that state laws mandating insurance contract terms are saved from preemption under §1144(b)(2)(A). See, *e.g.*, *Metropolitan Life*, 471 U. S., at 758. Under UNUM's interpretation, however, States would be powerless to alter the terms of the insurance relationship in ERISA plans; insurers could displace any state regulation simply by inserting a contrary term in plan documents. This interpretation would virtually read the saving clause out of ERISA. Second, whatever the merits of UNUM's view that §1132(a) preempts any action for plan benefits brought under state rules such as notice-prejudice, the issue is not implicated here. Because Ward sued under §1132(a)(1)(B) "to recover benefits due . . . under the terms of his plan," invoking the notice-prejudice rule as the relevant rule of decision for his §1132(a) suit, the case does not raise the question whether §1132(a) provides the sole launching ground for an ERISA enforcement action. Finally, the Court rejects UNUM's suggestion that the notice-prejudice rule conflicts with §1133, which requires plans to provide notice and the opportunity for review of denied claims, or with Department of Labor regulations providing that a claim is filed when the requirements of a reasonable claim filing procedure have been met. By allowing a longer period to file than the *minimum* filing terms mandated by federal law, the notice-prejudice rule complements rather than contradicts ERISA and the regulations. Pp. 14–16.

3. California's *Elfstrom* agency rule "relate[s] to" ERISA plans, and therefore does not occupy ground outside ERISA's preemption clause. Contrary to the Ninth Circuit's view that *Elfstrom* is consistent with this Court's ERISA preemption precedent because it does not dictate the manner in which the plan will be administered, deeming the policyholder-employer the agent of the insurer would have a marked effect on plan administration: It would force the employer, as plan administrator, to assume a role, with attendant legal duties and consequences, that it has not undertaken voluntarily; and it would affect not merely the plan's bookkeeping obligations regarding to whom benefits checks must be sent, but would also regulate the basic services that a plan may or must provide to its participants and beneficiaries. Pp. 16–18.

135 F. 3d 1276, affirmed in part, reversed in part, and remanded.

GINSBURG, J., delivered the opinion for a unanimous Court.