

Ambiguous Delegation of Authority, Inadequate Denial Notice Doomed Health Benefit Denial

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Dan C. v. Directors Guild of Am. - Producer Health Plan, 2025 WL 1554927 (9th Cir. 2025)

In a case involving a health plan's denial of residential mental health treatment benefits for a participant's child as medically unnecessary, the Ninth Circuit has underscored the importance of clear delegation of authority and adequate denial notices in ERISA health claims and appeals. Utilizing clinical criteria laid out in the plan's definition of "medical necessity," the plan deemed the child unqualified for ongoing residential treatment because it was inconsistent with medically accepted practices and was not the most cost-effective option. After the participant successfully sued to recover the benefits, the plan appealed, arguing that the trial court incorrectly reviewed the benefit denial de novo (which allows the court to conduct an independent analysis of the plan's denial with scrutiny) instead of for abuse of discretion (which allows the plan's decision to be overturned only if it was clearly in error).

Affirming the trial court's use of de novo review, the Ninth Circuit explained that the abuse of discretion standard is only available where a clear and unambiguous delegation of discretionary authority to construe plan terms has been made to the plan administrator or fiduciary. While the plan granted its board of trustees authority to delegate discretionary authority, the full board failed to completely delegate this authority to the benefits committee, who made the final decision. The Ninth Circuit noted that the plan's benefit denial also would have failed under a more lenient abuse of discretion review since it denied the participant a full and fair review. Under ERISA, plans must provide adequate written notice of benefit denials with specific reasons that can be clearly understood by a participant and provide reasonable opportunity for a full and fair review. However, the plan failed, most notably, to provide notice of lower level-care treatment options—not just outpatient treatment options—until after the child was discharged from residential treatment.

EBIA Comment: This case highlights the importance of drafting clear language for delegation of discretionary authority provisions. To increase the chances for more favorable abuse of discretion review, discretionary authority delegations should leave no room for interpretation on whether there is a complete grant of discretionary authority or simply permission to exercise decision-making authority. Plans should also remember to provide comprehensive benefit denial notices that support the opportunity for full and fair review. For more information, see EBIA's ERISA Compliance manual at Sections XI.B ("Discretionary Authority to Interpret Plan and Determine Facts"), XXXIV.H ("Full and Fair Review' Procedures for Group Health Claims and Appeals"), and XXXVI.C ("Standard of Judicial Review Applied to Benefit Decisions Under ERISA Plans"). See also EBIA's Self-Insured Health Plans manual at Sections IX.E ("Recommended Plan Provisions") and XXVI.J ("Litigation Issues").

Contributing Editors: EBIA Staff.

