Subrogation Options for Consideration

“A Bill Clarifying a Workers Compensation Insurer’s Subrogation Interest in Third-Party Claims”

Whereas, subrogation is a device of equity which is designed to compel the ultimate payment of a debt by the one who in justice, equity and good conscience should pay it.

Whereas, in Zacher v. American Ins. Co., 243 Mont. 226, 794 P.2d 335 (1990) and Francetich v. State Compensation Mutual Ins. Fund, 225 Mont. 215, 827 P.2d 1279 (1992), the Montana Supreme Court held that a workers compensation insurer or self-insurer has no subrogation interest in proceeds from a third-party action allowed for pursuant to MCA § 39-71-412 and MCA § 39-71-413 until the claimant has been “made whole” for his/her entire loss.

Whereas, later decisions of the Montana Supreme Court and the Montana Workers’ Compensation Court have determined that the “made whole” calculation must be made without regard to the negligence of the claimant and other factors that may have impacted the third-party claim including policy limits and the claimant’s desire to end the litigation.

Whereas, the “made whole” analysis includes wage loss, loss of earning capacity, loss of fringe benefits, pensions, pain and suffering, and related damages as well as past and future medical costs, workers compensation insurers and self-insurers are effectively precluded from exercising a subrogation interest in the proceeds of the third-party action.
Whereas, in *Zacher v. American Ins. Co.*, 243 Mont. 226, 794 P.2d 335 (1990) and *State Compensation Insurance Fund v. McMillan*, 306 Mont. 155, 31 P.3d 347 (2001), the Montana Supreme Court held that the “made whole doctrine” is not dependent upon a right of recovery of full legal redress under the Montana Constitution, Article II, Section 16; and

Whereas, in *Swanson v. Hartford Insurance Co.*, 309 Mont. 269, 46 P.3d 584 (2002), the Montana Supreme Court recognized the “made whole doctrine” is an equitable theory and that the Legislature had the authority to enact statutes limiting the “made whole doctrine.”

Whereas, in *Ridley v. Guaranty Nat. Ins. Co.*, 286 Mont. 325, 951 P.2d 937 (1997), the Montana Supreme Court held that under the Unfair Trade Practices Act, an insurer has a duty to pay medical expenses for an injured third-party where liability is reasonably clear.

Whereas, in *Dubrey v. Farmer’s Insurance Exchange*, 307 Mont. 134, 36 P.3d 897 (2001), the Montana Supreme Court held that an insurer has a duty to pay lost wages for an injured third-party where liability is reasonably clear.

Whereas, it is the intent of this Legislature to clearly articulate that the “made whole doctrine” is not to be applied or considered in determining whether an insurer or self-insurer has a subrogation right in a third-party action as allowed for by MCA §§ 39-71-412 and 413. Be It Enacted by the Legislature of the State of Montana:
Option 1

MCA § 39-71-414 (2013) is amended as follows:

(6)(a) The insurer is entitled to full subrogation rights under this section for all medical benefits paid regardless of whether the claimant is able to demonstrate damages in excess of the workers’ compensation and third-party recovery combined. For all other benefits . . .

(This Option will allow an insurer to assert a subrogation interest in a third-party judgment or settlement even in circumstances where the injured worker has not been “made whole” as that term has come to be defined by the courts. However, the subrogation interest would be limited to medical benefits and would be subject to the other limitations found in MCA § 39-71-414(2). This Option is intended to prevent a double recovery by the claimant for medical expenses, first from the workers compensation insurer and second from the liability insurer.)

Option 2

In the event of a compensable workers compensation claim arising out of an accident caused by a third party for which there is other applicable insurance, payments for medical care and treatment arising out of the accident must be made in the following order of priority:
WHAT OPTION 2 WOULD LOOK LIKE:

NEW SECTION. Section 1. Medical claim priorities in subrogation. (1) If a compensable workers' compensation claim arises out of an accident caused by a third party for which there is insurance, payments for medical care and treatment arising out of the accident must be made in the following order of priority:

(a) first to the extent of the limits of the third party's policy coverage for medical pay, bodily injury, sickness, death, or disease;
(b) then by the workers' compensation insurer for the employer.

This order of priority shall control regardless of whether the claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third-party recovery combined. If the third-party insurer contests liability for the payment of medical expenses, the workers compensation insurer shall pay those medical benefits to which the claimant is entitled under the Montana Workers Compensation Act. When liability becomes reasonably clear, or there is a finding or admission of liability, the third-party insurer shall be required to reimburse the workers compensation insurer for all medical benefits paid.

Covered medical expenses must be paid according to the terms of the applicable policy or in accordance with any written agreement or contract existing between the provider and the insurer or a person contractually engaged by the insurer to perform services.
according to the terms of the applicable policy or in accordance with any written agreement or contract existing between the provider and the insurer or a person contractually engaged by the insurer to perform services.

(This Option is intended to make the insurer for the negligent third-party the primary payor of medical bills.

This would be consistent with the insurer’s obligations as articulated in Ridley. The statute could also be amended to make the third-party insurer primarily responsible for payment of lost wages pursuant to Dubrey.

The definition of TTD would have to be amended to reflect that there is no entitlement to TTD while receiving payments from the third-party insurer that are at least equal to the TTD benefit amount.)

Option 3

MCA § 39-71-414 (2013) is amended as follows:

(6)(a) . . . . In determining whether the Claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third party recovery combined, the extent to which the injured worker was contributorily negligent must be considered in the analysis and computation of damages and the total amount of damages must be diminished in the proportion to the percentage of fault attributable to the claimant.

(b) If a survival action does not exist and the parties reach a settlement of a wrongful death claim without apportionment of damages by a court or jury, the insurer may subrogate against the entire settlement amount, without regard to the parties’ apportionment of the damages, unless the insurer is a party to the settlement agreement.)

NOT SURE WHAT OPTION 3 WOULD LOOK LIKE. ALL NEW LANGUAGE?

(6) (a) The insurer is entitled to full subrogation rights under this section, unless the claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third-party recovery combined. If the insurer is entitled to subrogation under this section, the insurer may subrogate against the entire settlement or award of a third-party claim brought by the claimant or the claimant's personal representative without regard to the nature of the damages. In determining whether the claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third-party recovery combined, the extent to which the injured worker was contributorily negligent must be considered in the analysis and computation of damages and the total amount of damages must be diminished in the proportion to the percentage of fault attributable to the claimant.
Option 4

MCA § 39-71-414 (2013) is amended as follows:

(6) . . . . In determining whether the Claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third-party recovery combined, the amount of the third-party recovery creates a rebuttable presumption that such third-party recovery equals the total amount of damages. The extent to which the insured worker was contributorily negligent must be considered in the analysis of damages and the total amount of damages must be diminished in the proportion to the percentage of fault attributable to the claimant.

(b) If a survival action does not exist and the parties reach a settlement of a wrongful death claim without apportionment of damages by a court or jury, the insurer may subrogate against the entire settlement amount, without regard to the parties’ apportionment of the damages, unless the insurer is a party to the settlement agreement.

Again, NOT SURE WHAT OPTION 4 WOULD LOOK LIKE. ALL NEW LANGUAGE?

(6) (a) The insurer is entitled to full subrogation rights under this section, unless the claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third-party recovery combined. If the insurer is entitled to subrogation under this section, the insurer may subrogate against the entire settlement or award of a third-party claim brought by the claimant or the claimant’s personal representative without regard to the nature of the damages. In determining whether the claimant is able to demonstrate damages in excess of the workers’ compensation benefits and the third-party recovery combined, the amount of the third-party recovery creates a rebuttable presumption that such third-party recovery equals the total amount of damages. The extent to which the injured worker was contributorily negligent must be considered in the analysis of damages and the total amount of damages must be diminished in the proportion to the percentage of fault attributable to the claimant.

As such, a claimant may receive all the damages to which he is entitled under Montana law, but not be “made whole” for his injuries as defined by the courts.)
injured worker was contributorily negligent must be considered in the analysis of damages and the total amount of damages must be diminished in the proportion to the percentage of fault attributable to the claimant.

(This Option is intended to establish a rebuttable presumption that the amount of the recovery is the amount of the total damages. Language could also be added stating “the rebuttable presumption cannot be overcome by evidence of policy limits or by the claimant’s desire to settle the claim.” This Option does not directly challenge what it means to be “made whole” other than the fact contributory negligence is to be considered. It does place a heavier burden of proof on the claimant.)