



## Exhaustion of Plan Remedies Required For Benefits Claim: Woodard v. Fredericksburg Hospitalist Group, P.C.

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In *Woodard v. Fredericksburg Hospitalist Group, P.C.*, No. 1:12-cv-261 (E.D. Va. June 5, 2012), the U.S. District Court for the Eastern District of Virginia held that the plaintiff was required to exhaust the plan administrator's internal claim process before pursuing her federal lawsuit to obtain ERISA benefits.

Woodard, a physician, was a shareholder of Fredericksburg Hospitalist Group, P.C. ("FHG") and had been employed by FHG as a physician before resigning from the medical practice in August of 2010. She claimed that she was entitled to receive a share of a dividend that FHG declared on or about November 18, 2010, several months after she had resigned from FHG. Woodard alleged that FHG deposited these dividends into shareholders' 401(k) retirement plan accounts but had not made a deposit into her 401(k) account. Woodard alleged that she was still a FHG shareholder at the time of the dividend distribution and should have received a distribution pursuant to the dividend declaration.

Woodard filed a federal civil action alleging a claim to plan benefits and breach of fiduciary duty under ERISA, as well as various state law claims and a request for a declaratory judgment as to her shareholder status. Her ERISA fiduciary breach claim was based on the alleged failure to distribute her share of the November 2010 dividend and to pay it into her account in the FHG Profit Sharing Plan ("Plan"). Woodard's state law claims included a claim for failure to provide corporate records to which she was entitled, for failure to pay a corporate dividend, and for conversion of shares under Virginia corporation law.

The defendants, including FHG, the Plan, and the individual doctors working for FHG, moved to dismiss the complaint. They relied in part on ERISA's "exhaustion of remedies" doctrine, which generally requires plan participants to exhaust a plan's administrative remedies before filing a lawsuit for plan benefits. Defendants

contended that both Woodard's claim for benefits and her claim for injunctive relief to obtain certain documents were subject to dismissal because the state law claims were preempted by ERISA. Defendants contended further (and Woodard did not dispute) that she never requested a hearing on her claim under the Plan's administrative claim review process before filing her lawsuit.

The district court dismissed Woodard's claim for benefits without prejudice, based on her failure to exhaust the Plan's administrative remedies. The court did not accept Woodard's proposed distinction between her benefits claim and her fiduciary breach claim; the court held that the fiduciary claim was unsupportable if Woodard could not first establish that she had a right to the Plan benefits. Thus, she first had to pursue her administrative claim for benefits, and both of her ERISA claims collapsed because of her failure to exhaust the administrative remedies process afforded by the Plan.

The court also held that Woodard's state law claims were either preempted by ERISA or should be dismissed on subject matter jurisdiction grounds, evidently because the federal claim for benefits had been dismissed. Therefore, her entire lawsuit was dismissed.

The result in *Woodard* is a useful reminder that ERISA's "exhaustion of remedies" doctrine is still in full force, and that generally plaintiffs will not be permitted to circumvent a plan's administrative remedies process by proceeding directly to the courthouse. The doctrine's objectives are to resolve as many benefit claims as possible by administrative processes rather than litigating them in court, and to develop an adequate administrative record if a court review ultimately becomes necessary. As in *Woodard*, alert plan defendants will raise that doctrine of exhaustion as a defense to bar untimely ERISA benefits litigation.

*For more information about this topic, please contact the author or any member of the Williams Mullen ERISA Litigation Team.*

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