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WORKERS' COMPENSATION PRACTICE CASE UPDATE

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THE PENNSYLVANIA SUPREME COURT RULES THAT WORKERS' COMPENSATION EXCLUSION IN AN EMPLOYER-SPONSORED UIM INSURANCE POLICY VIOLATES PUBLIC POLICY AND IS UNENFORCEABLE

By David H. Dille, Esquire

STATEMENT OF FACTS

In Heller v. Pennsylvania League of Cities and Municipalities, the Pennsylvania Supreme Court dealt with the issue as to whether it was a violation of public policy to exclude from Underinsured Motorists (UIM) coverage a claim by an individual eligible for Workers' Compensation benefits.

On October 31, 2002, the claimant was severely injured in an automobile accident during the course of his employment as a police officer with Sugar creek Borough. The claimant was paid Workers' Compensation temporary total disability benefits in connection with that work injury and the medical expenses that he incurred in connection with the same were paid by the Workers' Compensation representative of the Borough.

The claimant did recover policy limits from the third party tortfeasor insurance carrier, but the claimant's losses and damages far exceeded the liability coverage. As a

result, the claimant sought UIM benefits from the Borough's UIM policy. The Borough's policy provided UIM coverage up to \$100,000 per person or per accident, but the UIM insurer denied the claimant's claim pursuant to a purported policy exclusion which indicated that UIM coverage did not apply to, ". . . any claim by anyone eligible for Workers' Compensation benefits that are the statutory obligation of the member [Borough]."

Once the denial was registered the claimant filed a Declaratory Judgment action in the Court of Common Pleas of Venango County, seeking an order voiding the subject exclusion on the grounds that it was contrary to public policy. The trial court granted the claimant's motion for summary judgment in this regard.

REVIEW OF APPELLATE DECISIONS

The matter was appealed to the Commonwealth Court of Pennsylvania and a divided panel reversed the decision of the trial court. The Commonwealth Court ruled that the exclusion was not prohibited by any specific statutory provisions, and determined there was no case law directly on-point regarding the matter.

The Pennsylvania Supreme Court granted allowance of an appeal pertaining to this issue. Although the Pennsylvania Supreme Court concluded that the Workers' Compensation exclusion did not expressly contradict the statutory language of the Motor Vehicle Financial Responsibility Law or the Pennsylvania Workers' Compensation Act, the court nevertheless ultimately ruled that the Workers' Compensation exclusion provision contained within the Borough's UIM policy operated to render the UIM coverage illusory and, consequently, ran counter to the intended compensatory scheme established by the General Assembly, and was consequently void as against public policy.

ANALYSIS AND RECOMMENDATIONS

Therefore, in effect, the Borough's UIM insurer is legally obligated to pay UIM benefits on behalf of an employee of the Borough under these circumstances. Since it is the Borough who pays the premium for those benefits, the Borough's Workers' Compensation representative would consequently have a Section 319 PA Workers' Compensation subrogation lien in connection with the UIM benefits which are paid out (as opposed to a situation where an employee would obtain UIM coverage through his personal policy, for which he would have paid that UIM insurance premium).

If you would like a copy of Heller v. Pennsylvania League of Cities and Municipalities, No. 16 WAP 2009, please do not hesitate to contact us.

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