

THE IMPACT OF TIARA YACHTS V. BCBSM ON SELF-FUNDED PLANS AND THEIR TPAS



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Summary

The Sixth Circuit's ruling in *Tiara Yachts v. BCBSM* has major implications for the administrators of self-funded plans who are negotiating TPA agreements. The case not only highlights the importance of monitoring claims administration but also that of evaluating a TPA's provider network as well as its pricing of out-of-network claims. Meanwhile, for TPAs, the ruling serves as a stark reminder of their broad range of ERISA fiduciary responsibilities.

Details

Tiara Yachts is a boat manufacturing company in Holland, MI, which employs hundreds of technicians, manufacturers, craftsmen, and engineers. Recently, however, the health benefits plan that the company offers to its employees won a notable legal victory that allows Tiara Yachts to pursue the third-party administrator responsible for safeguarding the plan's assets for allegedly violating its fiduciary duties to the plan. From a healthcare law perspective, the ensuing legal proceedings and outcome promise to have a profound impact on how self-funded healthcare plans are administered.

Tiara Yachts' Allegations

Rather than using traditional fully insured group insurance to provide health benefits for its employees, Tiara Yachts operated a self-funded plan. In 2006, Tiara Yachts employed the services of Blue Cross Blue Shield of Michigan (BCBSM) as its third-party administrator (TPA) to administer the health plan.



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This contractual arrangement, governed by an administrative services contract (ASC), provided BCBSM with the authority to interpret plan terms, calculate benefits, discern whether claims should be granted or denied, and compensate providers with plan assets. For those services rendered, Tiara Yachts paid BCBSM a monthly fee and routinely deposited funds into a BCBSM-owned account, from which the TPA paid claims.

The ASC also permitted Tiara Yachts to contest paid claims within 60 days and request audits covering the past two years. In exercising said rights, Tiara Yachts in July 2022 alleged that BCBSM overpaid health claims filed by out-of-state medical providers and then recouped the overpayments via a shared savings program (SSP). As compensation for the recovery services provided by the SSP, BCBSM retained 30% of the clawed-back funds. According to the plaintiff, BCBSM had pledged to apply Host Blue rates for out-of-state claims (i.e., discounted rates set by the Blue Cross entity in the provider's region) but actually paid many non-network providers at full billed charges. This so-called "flip logic" mechanism allegedly facilitated this practice, leading to massive overpayments. Per internal emails sent among BCBSM employees, this flip logic practice impacted "all" clients on one of the TPA's claims-processing platforms, except for those buying auto insurance. While the emails did not specify any clients in particular, Tiara Yachts was, in fact, a client on that platform and did not purchase car insurance. Tiara Yachts further alleged that by making the overpayments and then paying itself to administer the SSP, BCBSM, while serving as an ERISA fiduciary for the Tiara Yachts plan, breached its fiduciary duties and practiced self-dealing.

How the Courts Responded

Initially, the District Court for the Western District of Michigan granted BCBSM's motion to dismiss, opining that BCBSM's actions did not constitute fiduciary conduct under the Employee Retirement Income Security Act (ERISA) and maintaining that ERISA's remedial provisions could not provide the relief Tiara Yachts sought. However, on May 21, 2025, the United States Court of Appeals for the Sixth Circuit, in a published opinion written by Judge Rachel Bloomekatz, overturned the dismissal, ruling that Tiara Yachts reasonably claimed that BCBSM, by exercising discretion over plan assets, was indeed an ERISA fiduciary to the plan and had profited from its purposeful mismanagement of plan assets. The United States Court of Appeals for the Sixth Circuit went on to maintain that "by 2017, BCBSM knew that flip logic allowed 'abusive provider practices' that resulted in reimbursements 'far exceed[ing]' the 'allowed amount.'"

In *Tiara Yachts, Inc. v. Blue Cross Blue Shield of Michigan*, No. 24-1223 (6th Cir. 2025), the Sixth Circuit further ruled that the SSP may implicate fiduciary conduct because BCBSM allegedly had discretion over a critical variable in its own compensation: the pool of overpayments. That control, the Sixth Circuit opined, could support a claim for breach of fiduciary duty through self-dealing. Regarding relief, the court ruled that Tiara Yachts could pursue recovery for the plan under ERISA § 1132(a)(2) as well as equitable remedies—such as restitution and disgorgement—under § 1132(a)(3), but solely for funds still kept by BCBSM. Overpayments that remained with healthcare providers would not be eligible for recovery under the equitable claim. The case was remanded to the district court for further proceedings.

Impact on the Self-Funded Industry

The Sixth Circuit's ruling in *Tiara Yachts v. BCBSM*—that TPAs can be considered fiduciaries if they exercise control over plan assets and their own compensation, or discretionary authority over plan management, irrespective of contractual terms—has major implications for the administrators of self-funded plans who are negotiating TPA agreements, as well as the plan's respective participants and their beneficiaries. It would be prudent for self-funded employers, in their work overseeing the daily management of plans, to periodically review their TPA agreements so as to clarify fiduciary roles and



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responsibilities, especially regarding plan asset management. It would also behoove such employers to examine compensation structures embedded in the agreements and ask for additional information from TPAs about those structures and the payments of claims if they suspect there is evidence of self-dealing. Certainly, the significance of divulging price information cannot be overlooked.

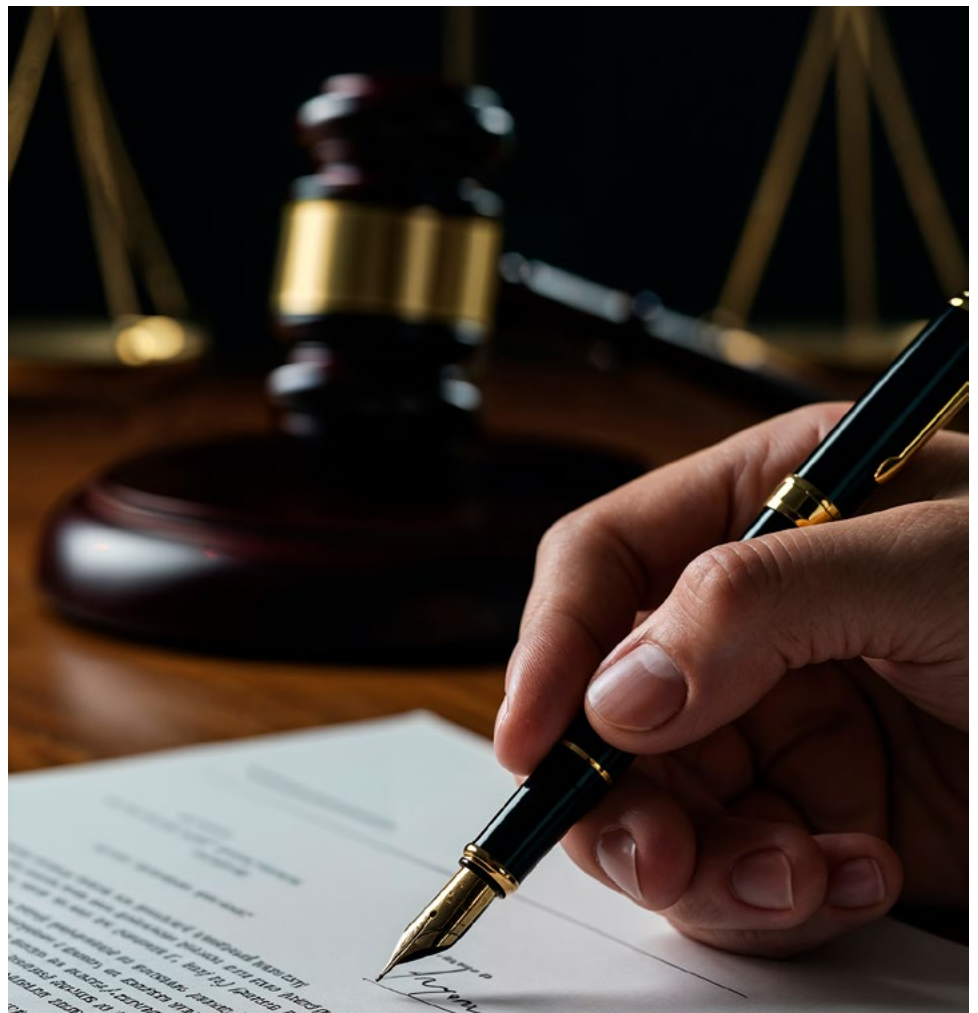
Generally speaking, TPAs have been reluctant to reveal information about the payment of claims. However, going forward in the wake of the *Tiara Yachts v. BCBSM* case, TPAs, to the extent that they assume fiduciary responsibilities or act in a fiduciary capacity, will be held more accountable for sharing this information when requested by a plan administrator. Historically, with self-funded health plans, fiduciary duties have often been enmeshed in ambiguity, acknowledged and respected, but not always entirely comprehended. It appears that those days may be numbered.

Understandably, self-funded employers may assume that the TPAs they have hired possess specialized abilities to process and accurately pay claims. But, as is evident by the outcome of *Tiara Yachts v. BCBSM*, even if the TPA has an excellent reputation and checks out during the initial vetting process, gauging the reasonableness of its fees and ability to properly service the plan, the self-funded employer should still continually evaluate the TPA's performance.

The financial well-being of hundreds, if not thousands, of plan participants is at stake with the possibility of heightened healthcare costs, and ultimately, the plan sponsor is chiefly responsible for ensuring that plan assets are not squandered. As such, some self-funded plans may be inclined to employ and retain a proficient auditor for examining a TPA's prior work processing and paying claims.

The *Tiara Yachts v. BCBSM* case not only highlights the importance of monitoring claims administration but also that of evaluating a TPA's provider network as well as its pricing of out-of-network claims. *Tiara Yachts* alleged that its TPA, BCBSM, had reimbursed out-of-network providers well above the rates it had established with other Blue Cross entities that were part of the "Host Blue" program.

However, had BCBSM offered plan participants a comprehensive and sufficient provider network to begin with, perhaps fewer participants would have been inclined to pursue out-of-network care—and thus, there would have been less likelihood of the TPA purposefully mismanaging out-of-network claims. It is paramount for the plan administrator to perform their due diligence by thoroughly researching the TPA's network composition (which may indicate signs of potential incentives for self-dealing) prior to contracting with it.



A Lesson for TPAs

Meanwhile, for TPAs, the Sixth Circuit's ruling serves as a stark reminder of their broad range of ERISA fiduciary responsibilities, particularly in situations where TPAs have some measure of control over their own compensation. The favorable decision for Tiara Yachts confirms that TPAs, when exercising authority or control over plan assets or discretionary authority over plan management, are indeed ERISA fiduciaries and, subsequently, not immune from fiduciary scrutiny. Notably, *Tiara Yachts v. BCBSM* does not appear to be an isolated case but rather a continuation of this recent spike in ERISA litigation against TPAs and other service providers challenging their stewardship of self-funded health plans. But ultimately, in order to mitigate risks of fiduciary liability for the welfare of plan participants, plan sponsors and plan fiduciaries should conduct regular plan audits, manage coherent records of decision-making processes, and stay current on legal developments concerning ERISA fiduciary responsibility. ■

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