

AHCCCS IS LIMITED IN ITS LIEN RECOVERY FROM A TORT PLAINTIFF WHO SETTLES FOR LESS THAN THE VALUE OF HIS CASE

March 10, 2011 | Law Alerts, News

Southwest Fiduciary, Inc. v. AHCCCS
Ct. Appeals, Div. One, March 10, 2011

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This is a consolidation of two cases. In the first case, plaintiff Lundy had a tort claim which included past medical bills of \$920,000. AHCCCS satisfied Lundy's medical bills by paying \$268,080. Lundy ultimately settled with the tortfeasor for \$842,696 – about 24% of the total value of Lundy's damages. In the second case, plaintiff Flynn had a tort claim which included past medical bills of \$138,710. AHCCCS satisfied Flynn's medical bills by paying \$51,760. Flynn settled his claim for \$100,000, which was about 40% of the total value of his case. The foregoing settlements resolved both parties' respective claims for all damages, including past and future medical expenses, pain and suffering, lost wages, and other out-of-pocket costs. AHCCCS did not argue that the settlements disproportionately undervalued the medical payments AHCCCS made on behalf of Lundy and Flynn.

The issue was whether AHCCCS's lien rights were to be measured by what it actually paid to settle its liens or by the plaintiffs' billed charges. The issue arises because in Arizona injured persons may sue in tort to recover the full amount of their billed medical expenses caused by the tort, even though they may not have paid that amount or (any amount) of medical expenses.

The director of AHCCCS decided in favor of AHCCCS in the administrative proceedings, measuring its lien rights by the total billed medical expenses. The trial court, interpreting A.R.S. § 36-2915, held that AHCCCS's lien rights were not only to be (a) measured by what it actually paid, but also (b) reduced by the ratio the lien settlement amount bore to the total value of the plaintiff's case.

The court of appeals affirmed. Interpreting A.R.S. § 36-2915 and being guided by federal law, it held that AHCCCS's share of a settlement should be calculated based on amounts it paid for the victim's medical care, not based on larger amounts reflected in billed charges that are negotiated down and which are never paid or owed. The court reasoned that "a fair approach" to allocation was to conclude that the recovery for past medical expenses was received in the same proportion that settlement bore to total claimed damages. Therefore, because the Lundy settlement represented 24 percent of the value of her case, AHCCCS was entitled to recover 24 percent of what it paid toward her medical expenses. In Flynn's case, he settled for 40% of the value his case, so AHCCCS was entitled to receive 40 percent of the amount it actually paid for his medical expenses.