On August 1, a nursing home for the elderly admitted an 84-year-old man for a trial period of two months. On September 25, the man and the nursing home entered into a written lifetime-care contract with an effective commencement date of October 1. The full contract price was $20,000, which, as required by the terms of the contract, the man prepaid to the nursing home on September 25. The nursing home rejected a woman's application for lifetime care on September 26 due to its commitment to the man.

On October 2, the man died of a heart attack.

In a restitutionary action, will the administrator of the man's estate likely recover on behalf of the estate either all or part of the $20,000 paid to the nursing home on September 25?

A. No, because the man's life span and the duration of the nursing home's commitment to him were risks assumed by both parties.

B. No, because the nursing home rejected the woman's application due to its commitment to the man.

C. Yes, because the doctrine of frustration of purpose applies.

D. Yes, because the nursing home would otherwise be unjustly enriched at the man's expense.

Explanation:

Ways to discharge contractual obligations

Full performance of contractual obligations
Impossibility, impracticability, or frustration of purpose
Release (in writing only)
Mutual rescission
Substituted contract
Contract or covenant not to sue
Accord & satisfaction
Novation
Mnemonic: **FIRM SCAN**

A **contract** can be **rescinded** after an unexpected event if (1) the event **frustrates the purpose** of the contract, (2) the contract was formed under a basic assumption that the event would *not* occur, and (3) neither party was at fault in causing the event to occur. The frustrating event must be **so severe** that it **cannot fairly be regarded** as **within the risks** that the parties **assumed under the contract**. Additionally, a party who conferred a benefit before the contract was rescinded can recover restitutionary damages to prevent unjust enrichment.

Here, the 84-year-old man and the nursing home entered into a written contract in which he prepaid $20,000 for lifetime care that began on October 1. Although the man unexpectedly died one day later, his life span and the duration of the nursing home's commitment to him were risks assumed by both parties. That is because:

the man assumed the risk that he would die before receiving the full value of his payment
and
the nursing home assumed the risk that the man would live so long that his payment would be insufficient.

Therefore, the doctrine of frustration of purpose does *not* apply, and the administrator of the man's estate is unlikely to recover restitutionary damages for all or part of the $20,000 paid to the nursing home **(Choice C)**.

(Choice B) The fact that the nursing home rejected the woman's application has no effect on the outcome of this dispute.

(Choice D) Unjust enrichment occurs when a party receives a benefit from another that was not rightfully earned and would be unfair to keep. But here, it would not be unfair for the nursing home to retain the $20,000, and the nursing home rightfully earned it, because the nursing home assumed the risk that the man would live so long that his payment would be inadequate.

Educational objective:

The doctrine of frustration of purpose applies only where the frustrating event is so severe that it cannot fairly be regarded as within the risks that the parties assumed under the contract.

References

Restatement (Second) of Contracts § 265 (Am. Law Inst. 1981) (frustration-of-purpose doctrine).

Restatement (Second) of Contracts § 377 (Am. Law Inst. 1981) (restitution for frustration of purpose).