

Supreme Court decision sheds new light on ERISA claims

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The Supreme Court's recent holding clarifies that terms in the Summary Plan Description are not enforceable under ERISA as provisions of the plan

On May 16, 2011, the U.S. Supreme Court issued a ruling in *CIGNA Corp. v. Amara*, #09-804, U.S. Supreme Court (May 16, 2011). The Supreme Court held that the terms of a Summary Plan Description (SPD) or a Summary of Material Modifications (SMM) issued by the administrator of a qualified retirement plan and improperly describing the terms of the plan could not be enforced under ERISA as though it were part of the plan. The suit was initiated by a group of current and former CIGNA employees who had participated in a traditional defined benefit plan prior to January 1, 1998, when CIGNA amended the plan to become a cash balance plan. The plaintiffs, seeking class certification, argued that CIGNA failed to provide certain required notices and disclosures to its participants required under ERISA.

The District Court had determined that CIGNA materially and intentionally misled participants in the plan. While the trial court held that only employees who had suffered harm were entitled to relief as a result of the failures, it determined that it was not necessary for each individual member of the class that was suing CIGNA in the suit to show individual injury. Instead, the trial court accepted evidence suggesting a presumption of the "likely harm" that was suffered by the members of the class and found that such evidence was sufficient to warrant the approval of the class action lawsuit. Thereafter, the court reformed the terms of the revised plan in order to make it conform with the disclosures that had been provided by CIGNA in the SPD and SMM distributed to participants. CIGNA appealed the decision to the Second Circuit Court of Appeals. The Second Circuit Court of Appeals affirmed the trial court's holding and the case was eventually accepted by the U.S. Supreme Court.

The U.S. Supreme Court vacated the judgment of the trial court that reformed the terms of the plan and required CIGNA to pay benefits in accordance with such change. The Supreme Court found that the SPD and SMM were not "plans" under ERISA, and thus could not be enforced under the provision of ERISA as contractual obligations of the plan. In addition, while the Supreme Court did not detail what needs to be proven in order to be entitled to "equitable relief," it did hold that "actual harm" had to be shown in order for there to be recovery. The Supreme Court spent quite a bit of time discussing what would be considered to be "appropriate equitable relief" under ERISA for these types of claims. The majority opinion, authored by Justice Breyer, held that monetary damages resulting from losses caused by a fiduciary's breach can be provided in the event the participants and beneficiaries show actual harm and causation. The Supreme Court found that it was not necessary for the plaintiffs to show that they had detrimentally relied on the misinformation in order to recover for the breaches. However,

the Supreme Court sent the case back to the District Court to consider other appropriate "equitable relief," and suggested in dicta, that such relief could include an award of monetary damages, injunctive relief or reformation of the plan.

What can employers learn from the CIGNA case?

The holding of the Supreme Court in the CIGNA case indicates that the terms of the SPD and SMM are not in and of themselves part of the plan and do not create enforceable contractual plan obligations. In effect, the Supreme Court concluded that the SPD and SMM are merely meant to be summaries of the plan document and mistaken terms should not be enforced as a contractual benefit obligation of the plan. Nonetheless, to the extent that such disclosures are not in compliance with ERISA, it still leaves the plan fiduciaries open to potential claims for "equitable relief" relating to the miscommunication or other failure to meet the requirements of ERISA.

Conclusion

For the most part, this is a good result for plan sponsors because it counters some prior lower court rulings that held when there were mistakes in the SPD or SMM, the employer was liable for the greater of the promise that was made in the plan document or the promise that was made in the SPD or SMM. However, the opinion indicated that potentially significant monetary damages, injunctive relief or reformation could all potentially be awarded as an "appropriate equitable relief" for breaches of ERISA.

The Supreme Court's opinion in the CIGNA case resolves the open issue of whether the terms of a SPD, SMM or other company communication can be enforced under ERISA as part of the plan document. They cannot. However, it did open up the possibility of significant "equitable relief" and it left open a number of other issues that have plagued ERISA attorneys for some time. Because the case was remanded back to the trial court to make certain determinations, it is possible that some of these issues will be answered in the relatively near future.