UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Graden v. Conexant Systems Inc.

496 F.3d 291 (3d Cir. 2007) · No. No. 06-2337 · Decided July 31, 2007

SUMMARY

The Third Circuit held that a former employee who had cashed out of a defined-contribution 401(k) plan could qualify as an ERISA participant when alleging that fiduciary misconduct reduced the value of his benefits. The court concluded that Graden had statutory standing under 29 U.S.C. § 1132(a)(2) to sue plan fiduciaries on behalf of the plan and vacated the district court's dismissal for lack of standing.

CASE DETAILS

COURT	United States Court of Appeals for the Third Circuit
WRITING FOR THE COURT	Ambro, Circuit Judge; McKee, Circuit Judge; Michel, Circuit Judge, sitting by designation
JURISDICTION	Federal
DECIDED	July 31, 2007
DOCKET	No. 06-2337
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Appeal from the District Court's dismissal of an ERISA fiduciary-breach action for lack of statutory standing after the plaintiff had voluntarily cashed out of his defined-contribution 401(k) plan.
STANDARD OF REVIEW	De novo review of a dismissal for lack of statutory standing, accepting the complaint's factual allegations as true.
PRECEDENTIAL VALUE	published and precedential
PARTIES	Howard Graden, individually and on behalf of all others similarly situated v. Conexant Systems Inc., Dwight W. Decker, Armando Geday, Robert McMullan, Michael Vishny, Plan Committee Members, John Does 1-10, J. Scott Blouin, Balakrishnan S. Iyer, Dennis E. O'Reilly, Kerry K. Petry, Bradley W. Yates

TOPICS

erisa · employee benefits · trust administration · statutory interpretation · appellate procedure

PRACTICE AREAS

ERISA | employee benefits | trust law | appellate procedure

QUESTIONS PRESENTED

1. Whether a former employee who voluntarily cashed out of a defined-contribution ERISA plan may qualify as a plan participant with statutory standing when he alleges that fiduciary misconduct caused his benefit payment to be less than the amount due under the plan and ERISA.
2. Whether the plaintiff's claim is for ERISA benefits rather than extracontractual damages merely because it is brought under 29 U.S.C. § 1132(a)(2) against plan fiduciaries.
3. Whether the alleged amount of the deficient benefit is too speculative or difficult to calculate to support participant standing.

HOLDINGS

1. A former employee who alleges a colorable claim that fiduciary misconduct caused his benefit payment to be deficient on the day it was paid qualifies as an ERISA participant and has statutory standing to sue under 29 U.S.C. § 1132(a)(2).
2. The Court rejected the benefits-versus-damages dichotomy as the governing test for participant standing. The proper inquiry is whether the plaintiff colorably claims that the benefit payment was deficient under the plan and ERISA when paid, rather than whether the requested monetary relief could also be described as damages.
3. A benefit need not be a liquidated amount to be recoverable or to support participant standing. The alleged loss may be measured by what the affected accounts would have earned through prudent alternative investments.

KEY QUOTATIONS

> *"In sum, we hold that, when determining participant standing under ERISA, the relevant inquiry is whether the plaintiff alleges that his benefit payment was deficient on the day it was paid under the terms of the plan and the statute."* (496 F.3d at 303)

> *"The sensible holding, therefore, is that former employees whose benefits would be made whole by a restoration of losses to the plan are participants with standing to sue on behalf of the plan—and take part in any recovery."* (496 F.3d at 303)

FACTUAL BACKGROUND

Howard Graden was a Conexant employee and participant in the Conexant Retirement Savings Plan, a defined-contribution 401(k) plan. He directed his account into a fund composed entirely of Conexant common stock; the stock declined from $7.42 per share on March 5, 2004, to $1.70 per share when he voluntarily cashed out on October 4, 2004. Graden alleged that the decline resulted from a failed merger and that the defendants breached fiduciary duties by offering the stock fund and making false or misleading merger-related statements.

PROCEDURAL HISTORY

Graden alleged that Conexant and plan fiduciaries mismanaged plan assets by continuing to offer Conexant stock as an investment option and by making misleading merger-related statements. The District Court concluded that Graden was not an ERISA participant because he had cashed out of the plan and dismissed for lack of statutory standing without reaching the defendants' alternative failure-to-state-a-claim argument. The Third Circuit vacated and remanded.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

The District Court was instructed to proceed with further proceedings after recognizing Graden's statutory standing; the Third Circuit did not decide the merits of the alleged fiduciary breaches or the defendants' alternative failure-to-state-a-claim argument.

CASES CITED

- Presbytery of N.J. of the Orthodox Presbyterian Church v. Florio, 40 F.3d 1454, 1462 (3d Cir. 1994)
- Amato v. Wilentz, 952 F.2d 742, 748 (3d Cir. 1991)
- In re Mehta, 310 F.3d 308, 311 (3d Cir. 2002)
- Lujan v. Defenders of Wildlife, 504 U.S. 555, 560-61 (1992)
- Massachusetts Mutual Life Insurance Co. v. Russell, 473 U.S. 134, 144 (1985)
- In re Schering-Plough Corp. ERISA Litigation, 420 F.3d 231, 235, 241 (3d Cir. 2005)
- Firestone Tire & Rubber Co. v. Bruch, 489 U.S. 101, 103, 110, 118 (1989)
- Harzewski v. Guidant Corp., 489 F.3d 799, 806-07 (7th Cir. 2007)
- Coan v. Kaufman, 457 F.3d 250, 255-56 (2d Cir. 2006)
- Crawford v. Lamantia, 34 F.3d 28, 33 (1st Cir. 1994)
- Sommers Drug Stores Co. Employee Profit Sharing Trust v. Corrigan, 883 F.2d 345, 349-50 (5th Cir. 1989)
- Kuntz v. Reese, 785 F.2d 1410, 1411 (9th Cir. 1986) (per curiam)
- Yancy v. American Petrofina, Inc., 768 F.2d 707, 708-09 (5th Cir. 1985)
- Amalgamated Clothing & Textile Workers Union v. Murdock, 861 F.2d 1406, 1411 (9th Cir. 1988)
- Mertens v. Hewitt Associates, 508 U.S. 248, 255-57 (1993)
- Great-West Life & Annuity Insurance Co. v. Knudson, 534 U.S. 204, 215 (2002)
- Chapman v. ChoiceCare Long Island Term Disability Plan, 288 F.3d 506, 509-10 (2d Cir. 2002)
- Miller v. Rite Aid Corp., 334 F.3d 335, 343 (3d Cir. 2003)
- Daniels v. Thomas & Betts Corp., 263 F.3d 66, 78-79 (3d Cir. 2001)
- Leuthner v. Blue Cross & Blue Shield of Northeastern Pennsylvania, 454 F.3d 120, 127-28 (3d Cir. 2006)
- Laborers' International Union of North America v. Foster Wheeler Corp., 26 F.3d 375, 398 (3d Cir. 1994)
- Chait v. Bernstein, 835 F.2d 1017, 1019 n.1 (3d Cir. 1987)