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Supreme Court Ruling May Lead to More Fiduciary Lawsuits under ERISA

On April 17, 2025, the U.S. Supreme Court ruled that a group of employees may challenge their employer's fee arrangement with a retirement plan service provider under the Employee Retirement Income Security Act (ERISA). In its unanimous decision, the Supreme Court took an employee-friendly view of statutory text and simplified the requirements for alleging a violation of ERISA's prohibited transaction rules.

Prohibited Transaction Rules

ERISA establishes strict standards of conduct for plan fiduciaries. One such responsibility is the duty of loyalty, which requires plan fiduciaries to act solely in the interest of the plan's participants and beneficiaries. ERISA's prohibited transaction rules supplement the duty of loyalty by categorically barring certain transactions between the plan and a "party in interest," which includes plan service providers. Significantly, ERISA includes numerous exemptions to its prohibited transaction rules, one of which exempts contracts with service providers if no more than reasonable compensation is paid for the services.

Court Case

The plaintiffs were a group of Cornell University employees who participated in Cornell's retirement plans. They alleged that Cornell violated ERISA by causing the retirement plans to engage in prohibited transactions for recordkeeping services. According to the plaintiffs, Cornell paid its service providers more than a reasonable recordkeeping fee, which was charged to participants' accounts.

The 2nd U.S. Circuit Court of Appeals upheld the dismissal of the plaintiff's claim, holding that the plaintiffs needed to disprove the applicability of the reasonable compensation exemption to move forward with their lawsuit. On review, the Supreme Court reversed the lower court. The Supreme Court analyzed ERISA's text and held that plaintiffs can bring a lawsuit simply by alleging that a fiduciary engaged in a prohibited transaction. The Supreme Court ruled that the defendant fiduciary then has the burden of proving that an exemption applies (rather than requiring the plaintiff to disprove the exemption when bringing a claim).

Possible Implications

This decision simplifies the standard for filing prohibited transaction claims, which may lead to more employee lawsuits. In its opinion, the Supreme Court acknowledged Cornell's concerns that the ruling would encourage meritless litigation and increase costs for plan sponsors. The Court noted that while these are serious concerns, lower courts have ways to screen out meritless claims before cases proceed to the more costly discovery phase.

To help minimize the risk of litigation, employers should periodically review and document their compliance with ERISA's fiduciary duty requirements, including the prohibited transaction rules. This process should include reviewing service provider compensation to confirm its reasonableness.

Provided by Sompo

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