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Third Circuit Restricts the Scope of Relief for ERISA Discrimination Claims

The U.S. Court of Appeals for the Third Circuit recently ruled in *Eichorn v. AT&T Corp.,* No. 05 Civ. 5461, 2007 WL 1266133 (3d Cir. May 2, 2007), that a request to adjust participants' pension records was nothing more than a request for compensatory damages, and thus was not available as relief for a claim under ERISA § 510, 29 U.S.C. § 1140.

Background

Plaintiffs were former employees of Paradyne Corporation ("Paradyne"). In 1996, Lucent Technologies, Inc. ("Lucent") sold Paradyne to another business. Before that sale, plaintiffs participated in pension plans that included certain "bridging rights." Pursuant to these provisions, if an employee terminated employment and returned within six months, the employee could "bridge" the two terms of employment, receive pension credit for all prior service, and continue to accrue pension benefits as if s/he had never left. If the employee left and did not return until after the six-month "bridging period" had expired, the employee would need to work for an additional five years to regain his or her previous level of pension benefits. Plaintiffs claimed that defendants entered into an agreement as part of the sale of Paradyne that had the effect of eliminating their bridging rights. Plaintiffs relied on ERISA § 510, which makes it unlawful for an employer to act against an employee "for the purpose of interfering with the attainment of any right to which such participant might become entitled" under a benefit plan. The district court granted defendants' motion for summary judgment, concluding that, in light of its previous rulings in the litigation, the only relief plaintiffs could obtain was "back-pay," which is not equitable relief under ERISA § 502(a)(3).

The Third Circuit's Decision

Initially, the Court held that claims under ERISA § 510 may be pursued only through ERISA § 502(a)(3), which entitles participants to seek equitable relief for a violation of the plan or ERISA. In so holding, the Court joined other courts that have squarely confronted the issue. The Court reasoned that a claim was not available under ERISA § 502(a)(1)(B), which provides remedies for failure to comply with the terms of a plan, because here plaintiffs alleged that defendants interfered with their ability to become eligible for further benefits, not that the defendants had breached the terms of the plan itself.

Having concluded that plaintiffs must bring their claim under ERISA § 502(a)(3), the Court next concluded that plaintiffs' request for a decree requiring Lucent to adjust its pension records retroactively and prospectively to create an obligation to pay the plaintiffs more money was a request for compensatory damages merely framed as an "equitable" injunction, and, as such, was unavailable under ERISA § 502(a)(3). The ruling effectively left plaintiffs without a remedy even if a violation of ERISA § 510 had occurred. Relying on the Supreme Court's decision in *Great-West Life & Annuity Ins. Co.v. Knudson,* 534 U.S. 204, 210 (2002), the Court observed that the typical remedy under ERISA § 510 is reinstatement, and that it is of no consequence that the statute restricts the scope of ERISA § 510 by providing no relief for some violations.

Implications for Employers and Fiduciaries

The Court's reasoning has potentially broad implications for future ERISA litigations in the Third Circuit and elsewhere. First, the case adds to the growing line of authority post-*Knudson* finding that monetary relief, whether pursued directly or indirectly (*e.g.,* in the form of an injunction) is not recoverable under ERISA § 502(a)(3). In addition, the case illustrates the difficulty that employees may have in obtaining relief other than reinstatement for violations of ERISA § 510.

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