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District Court Reinforces Role of Article III Standing Limits in Post-Cunningham ERISA Litigation

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As has been discussed and written about extensively, the U.S. Supreme Court lowered the pleading standard for claims alleging violations of ERISA's prohibited transaction rules. *Cunningham v. Cornell University*, 604 U.S. 693 (2025). A recent decision addressing a motion to dismiss prohibited transaction claims serves as a good reminder to plan sponsors and fiduciaries not to overlook procedural safeguards when defending against such claims, including whether plaintiffs lack Article III constitutional standing. *Peeler v. Bayada Home Health Care, Inc.*, 2026 WL 208630 (W.D.N.C. Jan. 27, 2026).

Several participants in the Bayada Home Health Care, Inc. 401(k) plan alleged that the plan fiduciaries: (i) violated ERISA's prohibited transaction rules by engaging third-party investment advisors and paying too much for those contracts; and (ii) breached their duties of prudence and loyalty by selecting and retaining certain investments that were too expensive and underperformed, and by paying too much for investment advisory and recordkeeping fees.

Defendants moved to dismiss the complaint for lack of constitutional standing and for failure to state a claim for relief. Addressing first the threshold issue of whether the plaintiffs had standing, the court observed that the plaintiffs' only allegations related to the investment advisory services were that they were unnecessary and the advisors' fees were excessive. The court determined that such allegations were speculative and provided no basis for inferring that the plan's payment to third-party investment advisors caused harm to participants. In so ruling, the court found that these allegations were undermined by: (i) other allegations in the complaint that similar plans contracted for investment advisory services; and (ii) the lack of "meaningful comparison" between the plan's and comparators' advisory fee schemes. The court also found plaintiffs failed to allege that their individual account balances declined because of any advisory fees. As a result, the court held that plaintiffs failed to plead a constitutionally cognizable injury and dismissed the prohibited transaction claim for lack of standing.

Independently, the court dismissed plaintiffs' fiduciary-breach claims because plaintiffs failed to provide nonspeculative facts to support their allegations. First, the court determined that the plaintiffs could not sustain their fiduciary-breach claims based on the selection and monitoring of certain investment funds because they had not plausibly alleged a non-speculative financial loss actually affecting, or imminently threatening to affect, their accounts. Second, the court dismissed one of the plaintiff's claims insofar as they pertained to a fund in which he had not invested for lack of injury. Third, the court rejected the plaintiffs' allegations of excessive investment management fees because plaintiffs failed to show through nonconclusory facts that fees paid were excessive relative to services rendered. And, finally, the court rejected the plaintiffs' excessive recordkeeping fee allegation because they failed to plead like-for-like comparisons of the plan's fees to their comparator plans. The fact that recordkeepers engaged in revenue-sharing or that fiduciaries failed to solicit bids from other recordkeepers was insufficient to support a plausible inference of imprudence.

Proskauer's Perspective

The court's decision serves as a good reminder that it is important to investigate all potential defenses – both procedural, such as Article III standing, and substantive – in evaluating a proper defense strategy.

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