NEWS

ERISA Case Highlights Importance of Written Releases at Termination of Employment: Sullivan v. Stanadyne Corporation

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A federal court has dismissed claims for enhanced retirement benefits in a case highlighting a participant's written release of claims at the time of his employment termination. *Sullivan v. Stanadyne Corporation*, Case No. 3:13-cv-01288 (D. Conn. June 12, 2015), held that the participant's written release plainly barred a claim seeking the inclusion of stock option payouts and bonuses in the calculation of his pensionable earnings under a supplemental retirement plan.

Background. The plaintiff, Shawn Sullivan ("Sullivan"), was a former executive employee at defendant Stanadyne Corporation ("Stanadyne"). During his employment, he received a six-figure salary and certain other compensation, including stock options and bonuses. Sullivan was also a participant in two Stanadyne plans, a tax qualified pension plan ("the pension plan") and a non-qualified, unfunded supplemental retirement plan for a select group of highly compensated employees ("the SERP"). While at Stanadyne, Sullivan periodically received statements showing his potential retirement calculations under the pension plan and the SERP, respectively. The plans were administered by the Stanadyne Retirement Benefits Committee ("the Committee").

In November 2009, Sullivan's employment at Stanadyne ended. He was not yet 57 years old. As part of a severance agreement, Sullivan was offered a package of benefits in exchange for a written release of Stanadyne "from any and all claims, known and unknown, asserted or unasserted which [he] has or may have . . . including any violation of . . . ERISA" as well as claims under many other federal and state laws. The release did not, however, "impair any right to the claim for vested pension benefits under Stanadyne's tax qualified pension plan."

In offering the severance package and proposed release to Sullivan, Stanadyne allowed him 45 days to decide whether to sign the release, and advised him to consult an attorney of his choice. Before the expiration of that 45 day period, Sullivan signed the release. He was then allowed an additional seven-day period in which he could revoke the release. He did not do so but, on the contrary, reaffirmed the agreement in writing.

Soon afterward, in March 2010, Sullivan received a statement of his estimated pensionable earnings, the first he had received since the end of his employment. For purposes of his SERP retirement benefit, this statement excluded from his pensionable earnings both his stock option payouts and his sales bonus. Sullivan wrote Stanadyne, complaining of those exclusions. His letter also stated his intention to take early retirement under the pension plan at age 62, “with no reduction in benefit”.

The Committee responded to Sullivan’s letter and rejected both his complaint about the exclusions and his request for payment of an unreduced pension benefit upon early retirement. On the latter point, the Committee said an employee who was terminated before age 57, such as Sullivan, could receive only a reduced pension plan benefit at age 62. When the Committee refused to change its mind, Sullivan filed this lawsuit, asserting claims under ERISA for higher benefits under the SERP and a declaration of his right to unreduced benefits under the pension plan upon early retirement. Stanadyne and its Committee filed a motion for summary judgment, based on the written release Sullivan had signed.

The Court’s Ruling. The District Court granted the defendants’ motion in part and dismissed Sullivan’s claim as to the SERP plan, but permitted him to amend his complaint and, if he could, plead a claim that he was seeking “vested pension benefits” under Stanadyne’s tax qualified pension plan. If he failed to file such an amended complaint, then his case would be dismissed in its entirety.

In reaching this conclusion, the court held that Sullivan signed his release voluntarily and knowingly, and, when he did so, he should have been aware from previous SERP statements that the stock option payouts and sales bonus would be excluded; the record lacked any documents that showed Stanadyne had ever included those items in its SERP calculations. The court found that the Stanadyne release generally discharged the defendants from liability for alleged ERISA violations concerning the SERP calculations, and therefore summary judgment was entered on that claim.

However, regarding Sullivan’s claim of a right to unreduced pension plan benefits upon early retirement, the court noted that the release expressly excluded an impairment of “any right to the claim for vested pension benefits under Stanadyne’s tax qualified pension plan.” This raised the question as to whether Sullivan could show that his claim for unreduced benefits constituted a “claim for vested pension benefits” under that plan and thus escaped the release of claims. His complaint was not clear on this point. Accordingly, the court allowed him 30 days to amend his complaint and show – if he could – that his pension plan claim fell within that exception to the release.

The Significant Lesson: *Sullivan* is a practical reminder of the importance of written releases of claims to both plan sponsors and fiduciaries and plan participants. The process for these releases, customarily drafted and signed at the participant’s end of employment, must be surrounded with the procedural safeguards that were followed in this case, such as adequate time for the participant to review the release and an opportunity to consult independent counsel. Where those safeguards are met, the release of claims can be conclusive as in *Sullivan*. But *Sullivan* also reminds us of the importance of carefully designing the scope of the release, for Stanadyne’s acknowledgment of the exception for vested pension plan benefits left open – for the time being – a door to plead certain claims under that plan. Thus, great care should be given to the drafting and execution of agreements releasing any claims under ERISA-regulated plans.

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