

No Fiduciary Breach Where Plan Language Clearly Earmarked Forfeitures

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Wright v. JPMorgan Chase & Co., 2025 WL 1683642 (C.D. Cal. 2025)

A 401(k) plan participant's lawsuit (intended to be a class action) was dismissed after a trial court determined that the allegations of ERISA violations were unsupported by the facts where clear plan language addressed permissible uses of asset forfeitures. Under the plan's terms, employer matching contributions are forfeited by employees who terminate employment before the three years of service required for full vesting, and, thereafter, must be used to: (1) reduce future employer contributions or (2) pay the employer's share of plan expenses. The participant asserted that the plan fiduciaries violated ERISA by using plan forfeitures for their own benefit (to reduce employer contributions), rather than allocating forfeitures to participants or using them to reduce participant expenses.

The Court concluded that the participant's assertion that the fiduciaries had discretion to reduce administrative expenses that would otherwise be the responsibility of participants was flawed, as that use of forfeitures was not included in the plan's terms. The court noted that fiduciary duty is fulfilled when the fiduciary ensures that participants receive promised benefits, and highlighted that the participant did not allege that benefits promised under plan terms were missing or that the plan terms violated ERISA. Thus, there was no breach of fiduciary duty. The participant's other claims, for violations of ERISA's anti-inurement and prohibited transaction rules, also failed. Inurement injuries require a showing of employer conversion of plan assets into non-plan assets, and here the assets remained in the plan. And the reallocation of forfeited plan assets to matching contributions within the same plan, as permitted by plan terms, was not a prohibited transaction. Essentially, the court decided that the fiduciaries' actions were permitted by the plan terms, noting that it is not necessary to reach past what the plan terms promise to avoid liability under ERISA—providing greater than 100% of promised benefits is not required.

EBIA Comment: Another in a continuing line of plan asset forfeiture cases out of California ends in the employer's favor chiefly due to solid plan language, demonstrating the advantage of intentional drafting. Here, the applicable plan language did not merely give the fiduciaries discretion to use forfeitures to pay plan expenses and future contributions, but, in fact, required that they do so. For more information, see EBIA's 401(k) Plans manual at Sections IX.E.4 ("Plan Document Provisions Addressing the Use of Forfeitures") and XXIV.E ("ERISA Fiduciary Duties"). See also EBIA's ERISA Compliance manual at Section XVI.C ("ERISA's Exclusive Benefit Rule").

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