

Process Over Perfection Prevails in 401(k) Plan Investment Fiduciary Breach Suit

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Iannone v. AutoZone, Inc., 2025 WL 2797074 (W.D. Tenn. 2025)

Available at

https://www.govinfo.gov/content/pkg/USCOURTS-tnwd-2_19-cv-02779/pdf/USCOURTS-tnwd-2_19-cv-02779-3.pdf

Participants and beneficiaries of a 401(k) plan filed a class action lawsuit accusing plan fiduciaries of breaching their fiduciary duties under ERISA, including by failing to prudently select and monitor investment options and their associated fees for a guaranteed income fund (GIF) stable value investment option, and an asset allocation tool program (which served as the plan's qualified default investment alternative (QDIA) option). Participants alleged that plan fiduciaries failed to monitor the guaranteed minimum crediting rate of the GIF investment option, did not negotiate for a higher rate or seek bids for other GIF options, and did not ensure the GIF investment options were diverse. Participants also accused fiduciaries of excess delay in replacing the asset allocation tool, which they alleged steered participants to higher-cost revenue-sharing investment options and contributed to millions in losses for affected participants.

The court concluded that the plan sponsor and administrators did not breach their fiduciary duties under ERISA to monitor the GIF stable value investment or the asset allocation tool program. Emphasizing that “ERISA demands prudence, not perfection” the court clarified that the duty of prudence was satisfied because the fiduciaries met regularly, reviewed funds’ performance and fees with professional advisors and documented this work, and considered outside advice in making changes to plan investments within a prudent timeframe. And while a deliberative process alone does not resolve the question of prudence, the participants and beneficiaries did not show that the investments were imprudent. For example, they did not account for all relevant variables (including risk and performance) in their attempt to show that comparable offerings would have produced higher returns. The court concluded that the participants and beneficiaries did not prove the losses they suffered were caused by a fiduciary breach where no breach occurred.

EBIA Comment: This court’s determination that offering an actively managed fund instead of a low-cost index fund is not an automatic breach of the duty of prudence reiterates the idea that fair and accurate comparison is required for investment option challenges, and the goal is not perfection, but establishing and following a process to reach prudent and reasonable investment decisions. The ruling also acknowledges that a fiduciary’s duties regarding investments may be fulfilled even absent an investment policy statement, which, while advisable, is not required under ERISA. These fiduciaries prevailed by demonstrating that their process was thorough and thoughtful—meeting materials included reports from the plan’s investment advisors and recordkeeper, and notes and minutes reflected a deliberative process that included exploring alternatives and analyzing relevant factors when making investment decisions. For more information, see EBIA’s 401(k) Plans manual at Sections XXIV.G (“Fiduciary Duty #2: Procedural Prudence”), XXV.C.2 (“Choosing the Plan’s Investment Design: Establish and Maintain a Statement of Investment Policy”), XXV.E (“Monitoring Investment Performance”), and XXV.F (“Investment Fees and Expenses”).

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