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No ERISA Violation When Employees Lost Some Benefits

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3/2/2012

By Farah Mollo

An employer did not illegally interfere with employees' rights to benefits when employees lost a portion of their pension and retiree health benefits as part of a transfer to a spinoff company, according to the 7th U.S. Circuit Court of Appeals.

In 2004, Abbott Laboratories, a major pharmaceuticals company, spun off its Hospital Products Division (HPD) and created a separate company called Hospira. In its announcement, Abbott stated that HPD employees would remain on Abbott's various benefits plans until the change took effect. Afterward, HPD employees would continue to receive the same benefits for approximately eight months (until the end of calendar-year 2004) through a transitional plan established by Abbott but managed by Hospira. Abbott also stated that after this point, Hospira employees would receive benefits through a yet-to-be-determined Hospira plan.

Hospira ultimately designed a benefits plan that did not offer pension or retiree medical benefits. Instead, Hospira offered an enhanced 401(k) plan with employer matching provisions.

To ensure the success of the spinoff, Abbott: (1) prohibited HPD employees designated to become Hospira employees to transfer within Abbott and (2) announced a reciprocal no-hire policy under which, for two years after the spinoff, Abbott would not hire Hospira employees or retirees and Hospira would not hire Abbott employees or retirees.

When HPD employees ceased employment with Abbott and became employees of Hospira, their nonvested pension rights in the Abbott pension plan were eliminated. Additionally, the reciprocal no-hire policy effectively prevented retirement-eligible HPD employees from retiring from Abbott and collecting an Abbott pension prior to joining Hospira.

A certified class of Abbott employees terminated as a result of the spinoff sued Abbott and Hospira, alleging violations of Section 510 of the Employee Retirement Income Security Act (ERISA). The trial court found in favor of the defendants.

The 7th Circuit affirmed the trial court's findings. The court noted that a violation of Section 510 of ERISA requires more than establishing a loss of benefits. The plaintiffs must demonstrate that the employers acted with the specific intent of preventing the use of benefits or retaliating for the use of benefits. The plaintiffs argued that Abbott wanted to rid itself of a portion of its pension liability and, in furtherance of its desire, spun off HPD and implemented a no-hire policy that ensured that HPD employees could not simply return to Abbott and retain their pension rights.

The court found that the evidence showed that benefits played no part in the decision to spin off HPD. Furthermore, the evidence demonstrated that the no-hire policy was created to promote stability and productivity at both companies post-spinoff, not to interfere with obtainment or enjoyment of benefits.

Nauman v. Abbott Labs., 7th Cir., No. 10-2272 (Feb. 3, 2012).

Professional Pointer: This case is a reminder that to prevail on claims of violations of Section 510 of ERISA, a plaintiff must prove that the defendant intended to prevent the use of benefits or retaliate for the use of benefits.

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