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District Court Rejects Reasonableness Requirement for "Actuarial Equivalence" Used to Calculate Alternative Annuities

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On March 4, 2022, the District Court for the District of Massachusetts dismissed, pursuant to Fed. R. Civ. P. 56, ERISA claims brought by a former employee who retired early at the age of 62 and receives retirement benefits in the form of a joint and survivor annuity. *Belknap v. Partners Healthcare Sys.*, No. 19-11437-FDS, 2022 U.S. Dist. LEXIS 38381 (D. Mass. Mar. 4, 2022).

Plaintiff asserted that defendants violated ERISA by using allegedly unreasonable, outdated actuarial assumptions to determine the value of his joint and survivor annuity, resulting in a lower monthly payment. Pursuant to ERISA, a joint and survivor annuity paid in early retirement must be the "actuarial equivalent" of a single-life annuity paid beginning at the normal retirement age, which in this case was age 65 under defendants' benefits plan. In sum, plaintiff alleged that his actual age-62 joint and survivor annuity was not actuarially equivalent to the single-life annuity that he would have received had he retired at age 65.

After two rounds of dispositive motions and amendments to the complaint, the parties engaged in a period of expert discovery followed by defendants moving for a third time to dismiss plaintiff's claims. The court found that plaintiff sufficiently alleged that a favorable decision would result in an increase in his benefits and denied defendants' 12(b)(1) motion on those grounds. Because both parties submitted expert evidence regarding the meaning of "actuarial equivalence," the court converted defendants' 12(b)(6) motion into one for summary judgment.

The court summarized the central issue concerning "actuarial equivalence" as one that required statutory interpretation to determine whether ERISA imposes a reasonableness requirement for "actuarial equivalence" in this context. The court concluded ERISA does not. First, in analyzing the meaning of "actuarial equivalent" under 29 U.S.C. § 1054(c)(3), the court rejected adding a reasonableness requirement, noting that the statute does not, on its face, define "actuarial equivalence" or require "reasonable" actuarial assumptions. The court concluded this omission was significant because elsewhere ERISA does so, such as by providing mortality assumptions and interest rates to convert annuities to lump-sum payments.

Second, after considering regulations and case law, the court did not read them as requiring actuarial equivalence calculations based on reasonable assumptions. The court noted that the regulations related to lump-sum benefits or to amendments of plans, neither of which applied here. The court determined that many of the cases relied on by plaintiff related to lump-sum benefits, or they did not have persuasive reasoning for adding a reasonableness requirement to the statutory text.

Third, the court analyzed how “actuarial equivalence” is treated by actuaries in practice when they calculate the benefits to be paid to see whether it was a term of art in the field. The court found it is the undisputed industry practice to refer to the plan documents to determine the actuarial assumptions to use. Indeed, plaintiff’s own experts conceded this. In this case, defendants’ plan was the only relevant place where “actuarial equivalence” was defined, and the parties agreed that defendants followed the terms of the plan.

Finally, the court concluded this was not an absurd construction of ERISA, noting that retirement plans are “not generally required to provide protection against various forms of economic or social change.” For instance, nothing in ERISA imposes cost-of-living adjustments, even though over time inflation can significantly erode the value of pension benefits. The court also had noted earlier that there may be limitations on the actuarial factors a plan can use when it is adopted or amended.

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