No. 25-514

IN THE

Supreme Court of the United States

MICROCHIP TECHNOLOGY INC., ET AL.,
Petitioners,

v.

PETER SCHUMAN AND WILLIAM COPLIN,
Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

REPLY BRIEF FOR THE PETITIONERS

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CORPORATE DISCLOSURE STATEMENT

The corporate disclosure statement in the petition for a writ of certiorari remains accurate.

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REPLY BRIEF FOR THE PETITIONERS

This case presents a straightforward question: Can a plaintiff bring a claim for an alleged breach of fiduciary duty under ERISA if the plaintiff knew about the alleged misconduct when he released his ERISA claims? The answer to that question *should* also be straightforward: Of course not. An ERISA release is enforceable so long as it is knowing and voluntary, and an alleged breach of fiduciary duty does not make a release *un*knowing or *in*voluntary unless the plaintiff was unaware of the purported misconduct when he signed. The Second Circuit recognized as much long ago in *Finz* v. *Schlesinger*, 957 F.2d 78 (2d Cir. 1992), eliminating the serious threat to ERISA settlements that would arise if a plaintiff could evade a release by relying on an alleged breach he knew about all along. But in the decision below, the Ninth Circuit revived that threat. It held that allegations of a breach of fiduciary duty must be given "serious consideration" and can "weigh particularly heavily" against enforcing a release even where—as here—the plaintiffs were well-aware of the alleged misconduct when they signed the release. Pet. App. 18a.

Respondents do not try to hide the implications of this holding. Instead, they defend the Ninth Circuit's decision on the ground that it would be wrong to enforce their release because, when they agreed to sign in exchange for 50% of the benefits they claimed under the plan, it was so obvious that their interpretation of the plan was correct that even offering the settlement was a breach of petitioners' fiduciary duty. In other words, under the rule that respondents advocate and that the Ninth Circuit embraced, an ERISA plaintiff can accept valuable consideration to release

a claim, refuse to tender back the consideration, and then bring the claim anyway by alleging that he is so clearly right on the merits that offering the release was itself a breach. To be sure, the defendant might ultimately prevail on the merits, but litigation on the merits is exactly what releases are designed to prevent.

If this rule is allowed to stand, it will threaten the finality of countless already-signed ERISA releases and diminish the likelihood of the amicable settlement of ERISA claims in the future. Still worse, the effects of this decision are not limited to the Ninth Circuit because the court of appeals purported to be following the approach of the Seventh and Eighth Circuits. Pet. App. 17a. And while the court of appeals also indicated that it was departing from the approach of the First and Second Circuits, *ibid.*, ERISA plaintiffs throughout the country may attempt to use the Ninth Circuit's decision as leverage to revisit settled claims.

This Court should step in to quell the threat to the viability of ERISA releases, resolve the division in the circuits, and restore the appropriate standard for enforcing ERISA settlements.

I. THE DECISION BELOW DEEPENS A CIRCUIT SPLIT.

As the petition explained, the decision below correctly identifies a divide between the First and Second Circuits, on the one hand, and the Seventh and Eighth Circuits, on the other, regarding the proper test for determining whether an ERISA release is enforceable. Pet. App. 17a. All four circuits ask whether the release was knowing and voluntary based on a non-exclusive set of factors. *Ibid.* But the Seventh and Eight

Circuits apply "more comprehensive * * * tests" that expressly *require*—rather than merely permitting—consideration of alleged improper fiduciary conduct in procuring the release. *Ibid.*

The Ninth Circuit purported to "join" the Seventh and Eighth Circuits in their approach, Pet. App. 17a, but in fact it went much further, dramatically sharpening the circuit split in at least two ways. First, unlike any of the other circuits, the Ninth Circuit held that a court must give "serious consideration" to any "breach of fiduciary duty in obtaining the release of claims," and instructed that an alleged breach may "weigh particularly heavily" against enforcement of a release. *Id.* at 18a. Second, the Ninth Circuit reversed the district court's holding that—because respondents knew about the alleged breach of fiduciary duty before they signed the release—the alleged breach did not render the release unknowing or involuntary or otherwise counsel against enforcement. In reversing the district court, the Ninth Circuit created an irreconcilable conflict with *Finz*, the Second Circuit decision on which the district court's holding was premised. Pet. App. 43a-44a.

Respondents dispute that there is a meaningful conflict in the circuits, but they do not and cannot point to any other court of appeals that has placed such a heavy thumb on the scale against enforcing ERISA releases. Indeed, they do not even point to another circuit that has held that allegations of breach should have any more "consideration" or "weigh[t]" than other factors in the totality-of-the-circumstances analysis. Pet. App. 18a.

Moreover, while respondents assert (at 21) that there is no real split with *Finz* because the Second Cir-

cuit recognized that allegations of a breach *can* be relevant to the knowing-and-voluntary analysis, that overlooks the key holding of *Finz*: Such allegations are not relevant where—as here—plaintiffs knew of the alleged misconduct when they signed the release, because an alleged breach only factors into the analysis to the extent it prevented the release from being knowing and voluntary. See *Finz*, 957 F.2d at 83.

II. THE DECISION BELOW IS WRONG.

The Ninth Circuit's decision is plainly erroneous. The court of appeals held that an alleged breach of fiduciary duty should be given "serious consideration" in determining the enforceability of an ERISA release, without citing anything in ERISA that would justify this ERISA-specific approach. Pet. App. 18a. And the Ninth Circuit's holding conflicts with the general rule that a release of federal claims is enforceable so long as it is knowing and voluntary under the totality of the circumstances, as well as the basic principle that public policy favors settlement.

1. Respondents primarily attempt to defend the court of appeals' unsupportable holding by (mis)describing the facts of this case. As an initial matter, their account of the facts is beside the point, because it is the Ninth Circuit's adoption of an erroneous *legal* standard for the enforcement of ERISA releases that warrants this Court's review. But in any event, respondents' account is both erroneous and entirely divorced from the facts described in the decisions below. Specifically, respondents contend (at 1) that the releases in this case were unenforceable because petitioners acted in bad faith in offering the releases. And they assert (*ibid.*) that the bad faith was obvious because—when petitioners offered the releases—they knew their interpretation of the ERISA plan was

wrong based on a "conclusive and binding" determination made by the plan's original proponent.

That reasoning is at odds with a prior decision of the Ninth Circuit, which determined—in a case brought by plaintiffs who had *not* signed releases—that the plan's terms are ambiguous. *Berman* v. *Microchip Tech. Inc.*, 838 F. App'x 292, 293 (9th Cir. 2021). And respondents' account (at 1) of a "conclusive and binding" determination that showed obvious bad faith on the part of petitioners finds no footing in the decision of the district court or the court of appeals. Rather, the district court concluded that petitioners offered the releases to resolve an acknowledged dispute about the meaning of the plan terms, that respondents were fully aware of this dispute, and that respondents did not even appear to contest that the releases were knowing and voluntary. Pet. App. 44a-48a. The district court also recognized that respondents alleged a breach of fiduciary duty based on their assertion that petitioners had "misinterpreted and misled [respondents] about the meaning of" the plan, *id.* at 45a, but it found that those allegations did not affect the result of the knowing-and-voluntary inquiry because respondents knew about the alleged misconduct when they signed, *id.* at 48a-50a.

The court of appeals did not question the district court's understanding of these facts; it merely held that the district court was required to give "serious consideration" to the alleged breach because such allegations may "weigh particularly heavily" against enforcing a release. Pet. App. 18a. Respondents' detailed assertions of disputed facts and unfounded legal conclusions about purported prior plan interpretations, and their repeated assertions that petitioners acted in bad faith in ignoring them, are therefore a

side show designed to distract from the Ninth Circuit's erroneous adoption of a standard that puts a heavy thumb on the scale against the enforcement of ERISA releases.

2. When respondents get around to addressing the law, they make an unsuccessful attempt to justify the Ninth Circuit's standard based on 29 U.S.C. 1110(a). That ERISA provision "void[s] as against public policy" any "provision in an [ERISA] agreement or instrument which purports to relieve a fiduciary from responsibility or liability for any responsibility, obligation, or duty." *Ibid.* But that provision does not apply to releases of claims at all. That is because "[a] release * * * does not relieve a fiduciary of any responsibility, obligation, or duty imposed by ERISA; instead, it merely settles a dispute that the fiduciary did not fulfill its responsibility or duty on a given occasion." *Leavitt* v. *Nw. Bell Tel. Co.*, 921 F.2d 160, 161-162 (8th Cir. 1990). Nothing in ERISA stops fiduciaries from entering such settlements.

3. Respondents also invoke trust law. But trust law is often "only a starting point" in ERISA cases, "after which courts must go on to ask whether, or to what extent, the language of the statute, its structure, or its purposes require departing from common-law trust requirements." *Varity Corp.* v. *Howe*, 516 U.S. 489, 497 (1996). And in considering whether to follow or depart from trust law principles, courts must consider "competing congressional purposes," including Congress's desire "not to create a system that is so complex that administrative costs, or litigation expenses, unduly discourage employers from offering welfare benefit plans in the first place." *Ibid.* Accordingly, this Court has held that ERISA "should not be supplemented by extratextual remedies." *Hughes*

Aircraft Co. v. *Jacobson*, 525 U.S. 432, 447 (1999). Here, respondents use their characterization of trust law to urge an extratextual rule of law that is inconsistent with ERISA's goal of promoting "prompt and fair claims settlement." *Am. Airlines, Inc.* v. *Wolens*, 513 U.S. 219, 232 (1995) (citation omitted).

Even if trust law did apply, respondents misinterpret it. The authorities respondents cite do not stand for the sweeping proposition that an allegation of bad faith or breach of fiduciary duty is enough to vitiate a release. To the contrary, they stand for the unremarkable proposition that "fraud, duress, or undue influence," or a fiduciary's application of "unwarranted pressure" can render a release unenforceable. Restatement (Third) of Trusts § 97 cmt. f (A.L.I. 2012). Respondents quote the Restatement in support of their argument (at 27) that "threatening to withhold a distribution to which the beneficiary is entitled unless the beneficiary executes a release" voids a release (emphasis omitted). But that portion of the Restatement merely explains that a fiduciary may not withhold an *undisputed* payment to extract a release; it says nothing about *disputed* payments like the ones at issue here.

Bellows v. *Bellows*, 125 Cal. Rptr. 3d 401 (Cal. Ct. App. 2011), the principal trust law case on which respondents rely, confirms that respondents overread the Restatement. That case concerned a California statute providing that "[a] trustee may not require a beneficiary to relieve the trustee of liability as a condition for making a distribution or payment to, or for the benefit of, the beneficiary, if the distribution or payment is *required by the trust instrument*." *Id.* at 404 (quoting Cal. Prob. Code § 16004.5(a) (West 2004))

(emphasis added). Importantly, the same statute preserved a fiduciary's right to "[w]ithhold any portion of an otherwise required distribution that is reasonably in dispute." *Ibid.* In *Bellows*, however, there was "no dispute" that at least a portion of the payment the fiduciary had withheld was required, so the fiduciary "was not entitled to condition the payment" of that portion "on the release of other claims or demands of the trust beneficiary." *Id.* at 404.

Bellows thus stands for the narrow proposition that, where a fiduciary withholds *undisputed* payments as a means of coercing a beneficiary into granting a release, the release may not be enforceable. That principle is inapposite here because the Ninth Circuit has held that the plan's terms are "ambiguous," *Berman*, 838 F. App'x at 293, and the district court explained that there was an acknowledged dispute about respondents' entitlement to relief under the plan when petitioners offered the release. See pp. 3, 5, *supra*.

4. Besides lacking any basis in law, permitting ERISA plaintiffs to vitiate a release based on allegations that the defendant breached its fiduciary duty even by offering the settlement will undermine the fundamental public policy favoring releases. See *Williams* v. *First Nat'l Bank*, 216 U.S. 582, 595 (1910). Respondents downplay the deleterious effect the decision below will have on ERISA settlements, asserting (at 29) that parties' ability to settle "good-faith" disputes is not affected. But by holding that courts must give "serious consideration" to an alleged breach of fiduciary duty in deciding whether to enforce a release of the same alleged breach, Pet. App. 18a, the Ninth Circuit has opened the door to litigating any claim

that a plaintiff released despite viewing the defendant's position as unreasonable. In such circumstances, the plaintiff need only do what respondents did here: accept valuable consideration for a release; sign the release; then sue, alleging that the release is unenforceable because the defendant breached its fiduciary duty by even offering it. While a defendant in such a case may ultimately be able to convince the court that its position was meritorious, by that point the defendant will have lost the major benefit of a release—the ability to forgo costly litigation on the merits.

The inevitable result is that ERISA releases will become less valuable to defendants, who will offer them less frequently, forcing more burdensome litigation to proceed. Because that outcome harms ERISA plaintiffs, defendants, and courts alike, this Court's intervention is warranted.

III. THIS CASE IS AN IDEAL VEHICLE TO RESOLVE THE CIRCUIT SPLIT.

Respondents argue (at 33) that this case is a poor vehicle for addressing the question presented, largely based on the assertion that the outcome would have been the same in any circuit. That is wrong. The district court enforced the releases and dismissed respondents' claims by applying the approach articulated by the Second Circuit in *Finz*. Pet. App. 43a-44a, 54a. The Ninth Circuit reached a contrary result by purporting to instead adopt the approach of the Seventh and Eighth Circuits, and in fact articulating a much more stringent test than that embraced by any other court of appeals. Pet. App. 17a. In these circumstances there can be no dispute that the question presented is outcome-determinative.

Respondents also argue (at 33) that it is "not clear" how the district court will apply the Ninth Circuit's new test, and that this Court should wait and see what happens on remand before intervening. But the record is already adequately developed. The district court undertook a detailed knowing-and-voluntary analysis, and the Ninth Circuit deemed that analysis inadequate solely because it did not give special consideration to respondents' breach allegations. Pet. App. 18a, 43a-53a. Whatever the district court does on remand, it will do so while applying a standard that places a thumb on the scale against enforcing ERISA releases whenever a plaintiff alleges a breach of fiduciary duty. That standard is wrong, and so long as it remains good law in the Ninth Circuit, it will threaten the viability of existing ERISA releases and diminish the number of ERISA settlements going forward. The Court should intervene now to prevent that result.

CONCLUSION

For the foregoing reasons and those stated in the petition for a writ of certiorari, the petition should be granted.

Respectfully submitted,

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