

MEMO# 13473

May 2, 2001

STATE COURT HOLDS ERISA DOES NOT PREEMPT STATE LAW CLAIMS RELATING TO PLAN LOANS

[13473] May 2, 2001 TO: PENSION COMMITTEE No. 27-01 RE: STATE COURT HOLDS ERISA DOES NOT PREEMPT STATE LAW CLAIMS RELATING TO PLAN LOANS The Superior Court of Connecticut recently addressed whether state law claims arising from the processing of plan loans from a 401(k) plan are preempted by ERISA. The court in *Stankewich v. Vanguard Fiduciary Trust Co.*¹ held that ERISA does not preempt claims under “generally applicable [state] laws regulating areas where ERISA has nothing to say.” The facts of this case are as follows. Plaintiff, a 401(k) plan participant, applied for a plan loan in the amount of \$14,500. The plan’s application process required him to execute a promissory note in that amount. The loan amount plaintiff received, however, was \$14,056.57. Plaintiff filed suit against the plan and the plan trustee, alleging violations of (1) the federal Truth in Lending Act, (2) defendants’ fiduciary duties under state law, and (3) the Connecticut Unfair Trade Practices Act. The plan trustee filed a motion to dismiss, asserting that ERISA preempts the plaintiff’s second and third claims. The court denied defendant’s motion to dismiss based on a distinction made by the U.S. Supreme Court in *Egelhoff v. Egelhoff*² between “generally applicable laws regulating areas where ERISA has nothing to say” and state laws “governing central matters of plan administration” or “interfering with nationally uniform plan administration.” The court held that plaintiff’s state law claims did not “relate to the administration of employee benefit plans,” but rather, were based on “state laws of general applicability.” Thus, in the court’s view, plaintiff’s claims were not preempted by ERISA.³ Thomas T. Kim Assistant Counsel Attachment 1 2001 Conn. Super. LEXIS 862 (March 28, 2001). 2 See Institute Memorandum to Pension Members No. 19-01, dated April 5, 2001. 3 The court, however, noted that it was unclear from the record whether plan loans were “made in accordance with specific provisions regarding such loans set forth in the plan,” as required by ERISA section 408(b)(1)(C). The court stated that it may “revisit” its decision if evidence regarding this requirement were to be submitted. 2Attachment (in .pdf format)